LANDAMERICA FINANCIAL GROUP INC
Form 10-K
March 11, 2005

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Fiscal Year Ended December 31, 2004

OR

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

COMMISSION FILE NO. 1-13990

LANDAMERICA FINANCIAL GROUP, INC.

(Exact name of registrant as specified in its charter)

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

(804) 267-8000

(Registrant s telephone number, including area code)

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

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

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

None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).

Yes x No ¨

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, computed by reference to the closing sale price of the registrant s common stock as reported by the New York Stock Exchange on June 30, 2004, the last business day of the registrant s most recently completed second fiscal quarter, was approximately $687.1 million.

The number of shares of the registrant s common stock outstanding on March 4, 2005 was 18,085,978.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive proxy statement for the 2005 Annual Meeting of Shareholders (to be filed) are incorporated by reference into Part III of this report.

LANDAMERICA FINANCIAL GROUP, INC.

PART I

ITEM 1. BUSINESS

General Information

Unless the context otherwise requires, the terms LandAmerica and the Company refer to LandAmerica Financial Group, Inc. and its consolidated subsidiaries on a combined basis.

The Company was incorporated under the laws of the Commonwealth of Virginia on June 24, 1991. The Company is a holding company and operates through its subsidiaries. Its principal executive offices are located at 101 Gateway Centre Parkway, Richmond, Virginia 23235-5153, and its telephone number is (804) 267-8000. The Company maintains an internet website at www.landam.com.

Shareholders of the Company and the public may access the Company s periodic and current reports (including annual, quarterly and current reports on Form 10-K, Form 10-Q and Form 8-K, respectively, and any amendments to those reports) filed with or furnished to the Securities and Exchange Commission (SEC) pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, through the Investor Information section of the Company s website. The reports are made available on this website as soon as practicable following the filing of the reports with the SEC. The information is free of charge and may be reviewed, downloaded and printed from the website at any time.

In addition, the Company s Corporate Governance Guidelines, Code of Business Conduct and Ethics, Code of Ethics for Senior Financial Officers and the charters of the Audit Committee, Corporate Governance Committee and the Executive Compensation Committee are available to shareholders and the public through the Investor Information section of the Company s website. Printed copies of the documents are available to any shareholder upon written request to the Company s Secretary at the address set forth above.

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Act of 1934. Among other things, these statements relate to the future financial condition, business plans, operations, opportunities, or prospects of the Company, including any factors that may affect future earnings. These forward-looking statements involve risks and uncertainties that could cause the Company s actual results, performance or achievements to be materially different from any anticipated results, performance or achievements expressed or implied by such forward-looking statements. For additional information, see Forward-Looking and Cautionary Statements on page 49 of this report.

Overview of the Business

The Company provides products and services used to facilitate the purchase, sale, transfer, and financing of residential and commercial real estate. These products and services are provided to a broad based customer group including lenders, developers, real estate agents, attorneys, and property buyers and sellers through more than 800 direct offices and a network of 10,000 agents. The Company is one of the largest title insurance underwriters in the United States based on title premium revenues. The Company also conducts business in Mexico, Canada, the

Caribbean, Latin America, and Europe.

In addition to the Company s core business of providing title insurance, the Company provides a range of other products and services for residential and commercial real estate transactions, including title search, examination, escrow and closing. Home inspections and warranties are available for residential real estate transactions. For commercial real estate transactions, the Company provides property appraisal and valuation, building and site assessments and other due diligence services, survey coordination, construction disbursement, coordination of national multi-state transactions, tax-deferred real property exchanges pursuant to Section 1031 of the Internal Revenue Code, commercial mortgage loans and Uniform Commercial Code products insuring personal property. Specialized services, such as real estate tax processing, flood zone certifications, consumer mortgage credit reporting, default management services, and mortgage loan subservicing, are provided primarily to the Company s mortgage lending customers.

Operating Segments

The Company s principal business operations are organized under three primary operating segments: Title Insurance, Lender Services and Financial Services. Other operating business segments not required to be reported separately are reported in a category called Corporate and Other. Information regarding each of these operating segments is set forth below. Prior to 2003, the Company primarily operated in the title insurance business. In 2004 and 2003, the Company expanded the breadth of services provided primarily to the mortgage lending community.

Certain financial information regarding the Company s operating segments is presented in Note 20 to the accompanying Consolidated Financial Statements and in Management s Discussion and Analysis of Financial Condition and Results of Operations.

Title Insurance

<u>Products and Services</u>

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

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

The Company issues title insurance policies primarily through three principal title underwriting subsidiaries, Commonwealth Land Title Insurance Company (Commonwealth),

Lawyers Title Insurance Corporation (Lawyers Title), and Transnation Title Insurance Company (Transnation). The Company also owns four other title insurance underwriters, Commonwealth Land Title Insurance Company of New Jersey, Land Title Insurance Company, Title Insurance Company of America and Transnation Title Insurance Company of New York. The collective operations of these subsidiaries cover the entire United States (with the exception of Iowa, which does not recognize title insurance) and certain territories of the United States and Canada. In addition, the Company offers customers international title policy services in Mexico, the Caribbean, Latin America, and Europe.

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

Commercial Real Estate Services To facilitate the coordination and delivery of products and services in commercial real estate transactions, the Company s Commercial Services division assists customers in handling the more complex nature of commercial transactions. In addition to title insurance and escrow and closing services, the Company provides a range of specialized services that include property appraisal and valuation, building and site assessments and other due diligence services, survey coordination, construction disbursement, coordination of national multi-state transactions, tax-deferred real property exchanges pursuant to Section 1031 of the Internal Revenue Code and Uniform Commercial Code products insuring personal property. The combined capital position of our three principal title underwriting subsidiaries enables the Company to underwrite large commercial policies and to participate in national multi-state transactions.

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

Underwriting

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

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

Operations

The Company issues title insurance policies through branch offices of its title insurance underwriters, wholly-owned or partially-owned but consolidated subsidiary agencies, or through partially owned or independent title insurance agents. Where the policy is issued through a branch or wholly-owned subsidiary agency operation, the search is performed by or at the direction of the Company, and the premiums collected are retained by the Company. Where the policy is issued through a title insurance agent, whether or not partially-owned by the Company, the agent generally performs the search (in some areas searches are performed by approved attorneys), examines the title, collects the premium and retains a majority of the premium. The remainder of the premium is remitted to the Company as compensation, part of which is for bearing the risk of loss in the event a claim is made under the policy. The percentage of the premium retained by an agent varies from region to region and is sometimes regulated by the states. The Company is obligated to pay title claims in accordance with the terms of our policies, regardless of whether it issues policies through direct operations or agents. The Company maintains a quality assurance program for its independent agents. See Insured Risk on Policies in Force.

The premium for title insurance is due in full when the real estate transaction is closed. The Company recognizes title insurance premium revenues from direct operations upon the closing of the transaction, whereas premium revenues from agency operations are recognized by the Company upon the reporting of such premiums by the agent. Premiums from agents are typically remitted to us after the closing of the real estate transaction, with the average time between closing and reporting for 2004 being approximately 125 days.

Insured Risk on Policies in Force

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

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

Standard & Poors Corporation (S&P) has assigned a financial strength rating of A- to the title insurance operations of the Company. According to S&P, an insurer rated A has strong financial security characteristics, but is somewhat more likely to be affected by adverse business conditions than are insurers with higher ratings, and the minus (-) rating indicates relative standing within the A category. S&P assigns a ratings outlook along with its letter ratings to indicate its expectations of trends that relate to the financial strength rating for the rated company. The ratings outlook assigned by S&P may be either positive, stable or negative. According to S&P, the ratings outlook for the Company is stable. Fitch, Inc. (Fitch) has assigned an A rating to the financial strength of the Company. According to Fitch, an A rating is assigned to those companies that possess strong capacity to meet policyholder and contract obligations, where risk factors are moderate and the impact of any adverse business and economic factors is expected to be small. Fitch also assigns a ratings outlook along with its letter ratings to indicate its expectations of trends that relate to the financial strength rating for the rated company. The ratings outlook assigned by Fitch may be either positive, stable or negative. According to Fitch, the ratings outlook for the Company is stable. The S&P and Fitch ratings are not designed for the protection of investors and do not constitute recommendations to buy, sell or hold any security. Additionally, both Fitch and S&P have assigned senior debt ratings to the Company s convertible debentures due 2033 and 2034. They have been assigned ratings of BBB and BBB-, respectively.

The Company places a high priority on maintaining effective quality assurance and claims administration programs. The Company s quality assurance program focuses on quality control, claims prevention and product risk assessment for its independent agencies. The claims administration program focuses on improving liability analysis, prompt, fair and effective handling of claims, early evaluation of settlement or litigation with first and third-party claimants and appropriate use of ADR (Alternative Dispute Resolution) in claims processing. In addition, to reduce the incidence of agency defalcations, the Company established due diligence requirements in connection with the appointment of new agents, procedures for renewing existing agents and an Agency Audit Program. The Company continues to refine its systems for maintaining effective quality assurance and claims administration programs.

Facultative Reinsurance and Coinsurance

The Company s title insurance subsidiaries distribute large title insurance risks by entering into facultative reinsurance agreements with other title insurance companies (the reinsurer). The reinsurer assumes a portion of the risk the primary title insurance company (the ceding company or ceder) decides not to retain in consideration of a premium. A number of factors may enter into the decision to obtain facultative reinsurance, including retention limits imposed by state law, customer demands, and the risk retention philosophy of the Company. The ceder, however, remains liable to the insured under the policy for the total risk, whether or not the reinsurer meets its obligation. Reinsurance may be obtained from related title insurance companies and/or with unaffiliated title insurance companies. When facultative reinsurance is obtained, a primary risk generally in the amount of $5.0 million is retained by the ceder.

Facultative reinsurance is generally purchased from unaffiliated reinsurers if the risk on a single transaction is greater than $200.0 million. The Company s title insurance subsidiaries have entered into numerous facultative reinsurance agreements with unaffiliated title insurance companies. These reinsurance assumed arrangements are not materially concentrated with any single title insurance company. The exposure on assumed reinsurance risks is reduced due to the ceding company s retention of a significant primary risk. In addition, the exposure under these agreements generally ceases upon a transfer of the property and, with respect to insured loans, is decreased by reductions in mortgage loan balances. For these reasons, the actual exposure is much less than the total reinsurance the Company s title insurance subsidiaries have assumed.

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

The Company s title insurance subsidiaries enter into reinsurance and coinsurance arrangements with most of the larger participants in the title insurance market and such arrangements are not materially concentrated with any single title insurance company. Revenues and claims from reinsurance are not material to the Company s business as a whole. Loss reserves on assumed reinsurance business are maintained on a basis consistent with reserves for direct business.

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

The Company has not paid or recovered any material reinsured losses under a facultative reinsurance agreement during the three year period ended December 31, 2004.

Title Insurance Revenues

The table below sets forth, for the years ended December 31, 2004, 2003 and 2002, the approximate title insurance revenues and percentages of the Company s total revenues for the ten states representing the largest percentages of such revenues and for all other states combined:

Revenues by State (Dollars in millions)

	2004		2003		2002	
California	$ 531.6	16.4%	$ 470.8	14.4%	$ 333.7	13.4%
Texas	354.4	11.0%	411.3	12.6%	342.5	13.7%
Florida	280.5	8.7%	223.2	6.8%	164.7	6.6%
New York	214.8	6.6%	195.0	6.0%	146.2	5.8%
Pennsylvania	212.8	6.6%	247.2	7.6%	182.5	7.3%
Michigan	152.4	4.7%	191.1	5.9%	155.4	6.2%
Arizona	132.2	4.1%	111.7	3.4%	83.1	3.3%
Virginia	109.7	3.4%	92.9	2.8%	76.6	3.1%
New Jersey	98.3	2.9%	114.7	3.5%	90.1	3.6%
Ohio	92.4	3.0%	114.8	3.5%	76.5	3.1%
Other	1,056.5	32.6%	1,087.1	33.5%	848.2	33.9%
Total Title Revenues	$ 3,235.6	100.0%	$ 3,259.8	100.0%	$ 2,499.5	100.0%

Sales and Marketing

The Title Insurance Market For sales and marketing purposes, the Company generally distinguishes between residential and commercial real estate transactions. Residential real estate business results from the construction, sale, resale and refinancing of residential properties, while commercial real estate business results from similar activities with respect to properties with a business or commercial use. Although precise data is not available to compare the percentage of total premium revenues of the Company derived from residential versus commercial real estate transactions, approximately 79.1% of such revenues in 2004 resulted from policies providing coverage of $1.0 million or less (which tend to be residential) and approximately 20.9% of such revenues resulted from policies providing coverage in excess of $1.0 million (which tend to be commercial).

Residential Transactions The Company s primary source of residential business is from the local real estate community, such as attorneys, real estate brokers and developers, financial institutions, mortgage brokers and independent escrow agents. The Company serves the residential market through two major distribution channels: direct company owned offices and title insurance agents. Maintenance and expansion of these referral sources is integral to the Company s marketing strategy for local residential business. Because most of the Company s residential business arises from these local relationships, the Company is committed to providing an array of service offerings to these customers that with title insurance and closing services provide a more complete solution to their residential real estate transaction needs. The coordination of multiple products and services required by a real estate transaction, a service provided by LandAmerica OneStop, is known as transaction management. The Company continues to develop and refine products and services for each distribution channel designed to make the real estate transaction easier for both the Company s customers and the end consumer.

Commercial Transactions The Company s Commercial Services division specializes in coordinating, underwriting and closing complex commercial and multi-property transactions. As part of the implementation of its customer focused strategy, in 2004 the Company aligned its local commercial offices with its national commercial offices. The Company has personnel providing commercial transaction expertise in 45 offices in 27 strategic markets in the United States. Each office is focused on providing transaction and support services to national and local commercial accounts. The transaction and support services benefit both company offices as well as independent agents who handle substantial commercial transactions.

In addition, the Company is one of the most strongly capitalized title insurers in the industry, with an aggregate statutory surplus of $478.8 million as of December 31, 2004. The financial strength of the Company is an important factor in marketing the Company s commercial title business capabilities, enabling it to underwrite larger title policies and retain higher levels of risk without purchasing reinsurance from a third party. The Company s financial strength, as evidenced by the ratings from Standard & Poors and Fitch, is important in competing for commercial title insurance business. See additional information on the Company s financial strength ratings in the section entitled Insured Risk on Policies in Force above.

Marketing Strategy The Company continues its transition from title insurance product delivery to real estate transaction services provider. This strategy entails becoming more of a single source provider of the multiple products and services involved in real estate transactions. The Company continues to differentiate itself based on customer service and to expand a branding process to identify all operations of the Company under the LandAmerica name.

In 2004, the Company developed and implemented several customer service initiatives, including the launch of a Superior Service Guarantee in most of its branch offices that ensures the refund of the escrow fee when a residential customer is not satisfied with the Company s service or any portion of the settlement experience; the AgentXtra^{sm} program, a diverse offering of customized business and marketing solutions to support day-to-day business operations for the Company s agents; LenderXtra^{sm}, a flexible approach to product bundling that allows national lenders to create customized service packages, and LenderXtraOrder^{tm} the online component of LenderXtra that allows real-time, instant price quotes and order conversion for bundled lender services.

Customers

As of December 31, 2004, no single agent was responsible for more than 5% of the Company s title insurance revenues. In addition, the Company is not dependent upon any single

customer or any single group of customers. The loss of any independent agent or customer would not have a material adverse effect on the Company.

Competition

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

The Company s principal competitors are other major title insurance underwriters and their agency networks. The Company s principal competitors during 2004 were Fidelity National Financial, Inc., Old Republic International Corporation, Stewart Information Services, Inc. and The First American Corporation. While there are approximately 120 title insurance underwriting companies licensed in the United States, the top five companies (consisting of the Company and its four principal competitors and their consolidated subsidiaries) accounted for approximately 90.7% of the title insurance underwriting market in 2003, the latest date for which information is available, based on public filings made by those companies.

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

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

Business Strategy

The Company s long-term objective is to enhance its position as a premier provider and manager of integrated real estate transaction services while maximizing its profitability throughout the real estate market cycle. To accomplish this objective, the Company is pursuing various business initiatives designed to broaden its market position and provide the framework to enhance growth and maximize profitability.

Focusing on the Customer In 2004 the Company implemented a customer-focused strategy to increase intimacy with its customers. In conjunction with that strategy, the Company created leadership positions and teams to support its primary customer groups: agents, residential, commercial and national lenders. With the objective of fostering customer loyalty, these leaders and teams are responsible for ensuring consistent service quality and operational excellence by providing common support platforms and structures for the various markets in which the

Company operates. Further, in 2004, the Company organized its shared support resources to provide direct support to its customer-focused operations. Production and Process Improvement is a shared resource providing title production services to the Company s teams that support its primary customer groups. Technology resources focuses on providing superior customer service and increasing the Company s operational efficiency through electronic business solutions and technology support. The Company s other shared resources, such as human resources and legal, provide direct support to its internal customers through dedicated business partners.

Expanding Title Insurance Distribution Capabilities and Broadening Real Estate Transaction Services Offerings The Company seeks to increase its share of the title insurance market by expanding and enhancing its distribution channels through the hiring and retention of experienced industry professionals with strong local relationships, the opening of new offices in markets with the potential for significant transaction volume, acquisitions of title insurance agencies or underwriters and selectively engaging in joint ventures with title insurance agencies in order to strengthen the Company s presence in particularly attractive markets. In the case of the acquisition of agencies or small to medium-size underwriters, the Company reviews the agency s or underwriter s profitability, location, growth potential in its existing market, claims experience and, in the case of an underwriter, the adequacy of its reserves. In 2004, the Company acquired six title agencies, three escrow companies and one recording service company. Throughout the Company s title customer base, there is demand for providers of multiple, diverse real estate transaction services. In particular, the large national mortgage lenders expect that necessary services related to the mortgage financing process be available from and billed by a single source. The Company s strategy is to continue to expand its array of real estate transaction products and services available to lenders and other title customers and the distribution channels through which they are offered.

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

Reducing Costs and Expenses Losses resulting from claims under title insurance policies represent a relatively small part of the Company s overall costs. Operating costs constitute the largest portion of expenses relating to providing title insurance and are relatively high compared to other types of insurers. The Company continues to implement the concept of service centers, in which its three principal title operating subsidiaries share a single back office processing center in a geographic region while continuing to market from separate storefronts under different operating names. This concept has reduced the Company s cost per order in the markets where it is operational. In addition, the Company has several pilot projects underway to automate title production and workflow in its service centers. The Company provides escrow support from several centralized locations, thereby increasing service levels and improving efficiency. The Company is also implementing out-sourcing and off-shoring initiatives to streamline operations in areas where it has been determined that the cost\benefit of these initiatives will improve customer service and provide value to the Company s shareholders.

Enhancing Cost Control Flexibility The Company manages its personnel and other operational expenses to reflect changes in the level of activity in the real estate market. As a result, the Company s employee base expands and contracts over time. Personnel and administrative costs in the Title Insurance segment do not decrease as rapidly as transaction volumes decrease due to the Company s inability to change headcount in direct correlation to volume changes. Any acquisition also expands the Company s employee base. In order to manage personnel costs more efficiently throughout the real estate cycle, the Company uses temporary or part time employees where appropriate to staff operations so the Company can respond more rapidly to changes in real estate activity.

Regulation

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

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

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

Cyclicality and Seasonality

The title insurance business is closely related to the overall level of residential and commercial real estate activity, which is generally affected by the relative strength or weakness of the United States economy. In addition, title insurance volumes fluctuate based on the effect that changes in interest rates have on the level of real estate activity. Periods of increasing interest rates usually have an adverse impact on real estate activity and therefore premium and fee revenues. In contrast, real estate activity usually increases when interest rates fall. During 2004, interest rates, while still near historical lows, fluctuated monthly with a rise towards the end of the year. In 2003 the Company and the title insurance industry benefited from the lowest interest rates in the last 40 years.

Prior to 2002, residential real estate activity has been generally slower in the winter, when fewer families buy or sell homes, with increased volumes in the spring and summer. Residential refinancing activity is generally more uniform throughout the seasons, but is subject to interest rate variability. The Company typically reports its lowest revenues in the first quarter, with revenues increasing into the second quarter and through the third quarter. The fourth quarter customarily may be as strong as the third quarter, depending on the level of activity in the commercial real estate market. Due to historically low interest rates in the last three years, the Company s results have not followed the typical seasonal patterns. In 2004, 2003 and 2002 the Company s fourth quarter revenues were stronger than the third quarter primarily due to increased activity in the commercial real estate market each year and as a result of an increase in non-title operations in 2004 and an increase in refinance activity in the residential real estate market in 2003 and 2002.

Environmental Matters

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

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

Lender Services

Products and Services

The Lender Services segment focuses on mortgage lenders as a distinct customer base for certain of the Company s products and services, including real estate tax processing, flood zone certifications, consumer mortgage credit reporting, default management services, and mortgage loan subservicing.

Tax Services With the acquisition of LandAmerica Tax & Flood Services, Inc., formerly known as LERETA Corp. (LATF) on October 1, 2003, the Company began to offer real estate tax processing services to mortgage lenders through LATF s nationwide network. This service monitors and reports real estate property tax data needed by mortgage lenders on properties securing loans made by such mortgage lenders. During the lending process, LATF can advise lenders whether there are any delinquent taxes associated with the property. Where the lender requires an escrow for the payment of taxes by borrowers during the term of the loan, LATF determines the timing and amount of the tax payment due on the property and interfaces with the loan servicing department of the mortgage lender and the various local taxing authorities to facilitate the timely payment of real property taxes.

Services performed for mortgage lenders vary significantly, as some lenders prefer complete outsourcing of all tax service functions to LATF while other lenders prefer to perform their own tax services and purchase data from LATF. The Company believes that the trend among large lenders recently has been to perform their own tax service. LATF has developed a series of products to provide those lenders with the data and other tools they need to perform the tax service functions themselves.

Four mortgage lending customers account for approximately 54% of LATF s gross revenues. LATF competes on the basis of price and service with its three main competitors in the tax service business The First American Corporation, Fidelity National Financial Corp. and ZC Sterling Insurance Agency, Inc.

Flood Zone Certifications Through LATF, the Company provides mortgage lenders with information regarding whether property that is to be used to secure a loan is located in a special flood hazard area as defined by a federal agency. If the structure is in a special flood hazard area, the borrower is required to purchase flood insurance prior to closing of the transaction. LATF s flood service includes an initial flood zone determination report provided to the lender at the origination of the loan and subsequent notifications to the lender during the term of the loan of any changes in a property s flood zone status brought about by changes in flood insurance rate maps by the Federal Emergency Management Agency.

Although there are numerous suppliers of flood zone certification services, the largest competitors of LATF are The First American Corporation and Fidelity National Financial, Inc. The Company continued its expansion in the flood certification business with the purchase of Horizon Certification Services, Ltd. in the third quarter of 2004.

Consumer Mortgage Credit Reporting The Company provides consumer mortgage credit reporting services through LandAmerica Credit Services, Inc. (LACR), a wholly-owned subsidiary of the Company s subsidiary INFO1 Holding Company, Inc. LACR is a nationwide provider of consumer credit reports and income, employment, and tax return verifications to lenders engaged in mortgage origination. LACR s technology interfaces with many loan origination systems and permits 24 hour/7 days a week monitoring and response. Its credit information is obtained using technology linked to the three major credit bureaus, Equifax, Experian and Trans Union. In addition, through LACR s Bureau Direct, a borrower s erroneous credit information can be updated at each of the three major credit bureaus in 72 hours or less, thereby reducing the necessary paperwork and time required by the borrower and the lender seeking to close a transaction. In February, October and December 2004, LACR expanded through acquisitions of credit reporting companies in Utah, California, New Jersey and Indiana.

Default Management A subsidiary of the Company, LandAmerica Default Services Company (LADS), provides comprehensive default management services to lenders and mortgage servicing operations. These services consist of customized reports, broker price opinions and appraisals, foreclosure, management of properties acquired at foreclosure, bankruptcy services, reconveyance processing and lien release. In December 2004, LADS expanded its presence in California and New York with the acquisition of a default services company.

Mortgage Loan Subservicing Effective December 1, 2004, the Company acquired LoanCare Servicing Center, Inc. (LoanCare), a large mortgage loan subservicer. LoanCare is an approved servicer with the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, the Government National Mortgage Association, the Federal Housing Administration, the Veterans Administration, several nationwide financial institutions, and a number of private investors.

Financial Services

The Financial Services segment includes Orange County Bancorp and its wholly-owned subsidiary, Centennial Bank, a California industrial bank acquired by the Company in November 2003 (Centennial). Centennial s primary business is the origination and bulk purchase of commercial real estate loans in the Southern California market. Deposits are solicited through the internet for both certificates of deposit and passbook savings accounts. As an industrial bank, Centennial does not accept demand deposits, such as checking accounts, that provide for payment to third parties. Centennial does not offer banking services such as credit cards or automated teller machines. The Company utilizes Centennial to hold a portion of its escrow deposits. The following is a summary of certain information relating to Centennial s deposits, loans and allowances for loan losses for the last five years. As noted above, information related to periods prior to November 30, 2003, have not been included in the Company s financial position and results of operations as the Company acquired the bank effective November 30, 2003.

At December 31, 2004, Centennial held $373.1 million in total deposits. Certificates of deposit and passbook savings accounts represented 52.8% and 47.2%, respectively, of total deposits as of that date.

At December 31, 2004, Centennial had $343.8 million of outstanding loans which is 92.1% of total deposits. The average loan balance outstanding at December 31, 2004 was $0.4 million. Centennial makes loans only on a secured basis, at loan-to-value percentages typically no greater than 75%. Significantly all of Centennial s loans are made on a variable rate basis. Loans that Centennial made or acquired during 2004 ranged in amount from $2,000 to $7.0 million. Centennial s commercial real estate loans are typically smaller in size and more tailored to fit the customer than those issued by large financial institutions that maintain minimum size requirements of $0.5 million to $1.0 million or more. Centennial s primary competitors in the California market are local community banks, thrift and loan companies and, to a lesser extent, commercial banks.

The average yield on Centennial s loan portfolio as of December 31, 2004 was 6.8%. A number of factors are included in the determination of average yield, principal among which are interest, loan fees and closing points amortized to income, prepayment penalties recorded as income, and amortization of discounts on purchased loans.

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

	Year Ended December 31,				
	2004	**2003**	**2002**	**2001**	**2000**
	(In millions)				
Commercial, financial and agricultural	$	$ 0.1	$ 0.1	$ 0.3	$ 0.1
Real estate mortgage	342.3	253.9	203.7	142.8	103.6
Installment loans to individuals	1.5	4.3	11.0	18.7	22.5
Lease financing			0.3	0.3	0.3
Total	$ 343.8	$ 258.3	$ 215.1	$ 162.1	$ 126.5

The performance of Centennial s loan portfolio is evaluated on an ongoing basis by its management. Loans are typically classified as non-accrual if they miss three or more contractual payments. Loans may be returned to accrual status when all principal and interest amounts contractually due (including arrearages) are reasonably assured of repayment within an acceptable period of time, in accordance with the contractual interest and principal payment terms of interest and principal. While a loan is classified as non-accrual and future collectibility of the recorded loan balance is doubtful, collections of both interest and principal are generally applied as a reduction to principal outstanding. When the future collectibility of the recorded loan balance is expected, interest may be recognized on a cash basis.

The following table sets forth the amount of Centennial s nonperforming loans as of the dates indicated.

	Year Ended December 31,				
	2004	**2003**	**2002**	**2001**	**2000**
	(Dollars in millions)				
Nonaccrual loans	$	$ 0.1	$ 0.1	$ 0.1	$ 0.2
Total nonperforming assets	$	$ 0.1	$ 0.1	$ 0.1	$ 0.2
Allowance for loan losses to nonperforming assets	100.0X	23.44X	30.57X	18.43X	7.62X
Nonperforming assets to period end loans	.0%	.04%	.03%	.05%	.13%

Based on a variety of factors concerning the creditworthiness of its borrowers, the Company determined that Centennial had no potential problem loans in existence as of December 31, 2004.

The allowance for loan losses is established through a provision for loan losses. A loan is charged off against the allowance for loan losses when the Company believes that collectibility of the principal is unlikely. The allowance is an amount that management believes is adequate to absorb estimable and probable losses on existing loans and contracts. The Company takes into consideration changes in the nature and volume of its portfolio, overall portfolio quality, prior loss experience, review of specific problem loans and contracts, regulatory guidelines and current economic conditions that may affect the borrower s ability to pay. Additionally, certain regulatory agencies, as part of their examination process, periodically review the Company s allowance for loan losses. These agencies may require adjustments to the allowance based on their judgment regarding information made available to them. See Note 1 to the accompanying Consolidated Financial Statements.

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

	Year Ended December 31,				
	2004	2003	2002	2001	2000
	(Dollars in millions)				
Balance at beginning of period	$ 2.6	$ 2.1	$ 1.6	$ 1.3	$ 1.0
Charge-offs:					
Installment loans to individuals	0.1	0.3	0.5	0.6	0.4
Total loans charged off	0.1	0.3	0.5	0.6	0.4
Recoveries:					
Real estate mortgage					
Installment loans to individuals		0.1	0.1	0.1	0.1
Total recoveries		0.1	0.1	0.1	0.1
Net charge-offs	0.1	0.2	0.4	0.5	0.3
Provision for loan losses	0.9	0.7	0.9	0.8	0.6
Balance at end of period	$ 3.4	$ 2.6	$ 2.1	$ 1.6	$ 1.3
Ratio of net charge-offs to average loans outstanding during the period	0%	.1%	.2%	.4%	.4%

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

	Year Ended December 31,									
	2004		2003		2002		2001		2000	
	(Dollars in millions)									
	Amount	% [(1)]	Amount	% [(1)]	Amount	% [(1)]	Amount	% [(1)]	Amount	% [(1)]
Real estate mortgage	$ 1.7	50.0%	$ 1.3	50.0%	$ 0.9	42.9%	$ 0.6	37.5%	$ 0.5	38.5%
Installment loans to individuals	0.1	2.9%	0.2	7.7%	0.4	19.1%	0.6	37.5%	0.6	46.2%
Unallocated	1.6	47.1%	1.1	42.3%	0.8	38.0%	0.4	25.0%	0.2	15.3%
Total	$ 3.4	100.0%	$ 2.6	100.0%	$ 2.1	100.0%	$ 1.6	100.0%	$ 1.3	100.0%

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

Corporate and Other

The Corporate and Other group of businesses include LandAmerica Assessment Corporation, Inspectech, Inc., LandAmerica Valuation Corporation, formerly known as LandAmerica Commercial Appraisal Corporation, and Buyers Home Warranty Company.

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

Real estate engineering services typically involve the assessment of the condition of a property and its systems including structural integrity, HVAC, mechanical and electrical, fire and safety, as well as zoning, building code and handicap compliance. LandAmerica Assessment Corporation also will assess seismic vulnerability providing its clients with a statement of probable maximum loss based on field observation, geotechnical information, seismicity, liquefaction and slope gradient.

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

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

Surveillance services primarily include property inspections such as LandAmerica Assessment Corporation s industrial tenant audit for surveillance purposes and commercial mortgage backed securities annual property inspection. These services are designed to assess property condition and potential environmental risk and determine maintenance requirements.

In September 2004, the Company expanded its presence in the due diligence services business through the acquisition of an environmental and structural due diligence company providing services for commercial real estate clients throughout the United States, as well as Canada, Mexico, and the Caribbean.

Inspectech Inspectech, Inc., a subsidiary of the Company, provides commercial and residential inspections for real estate transactions in Arizona, California, Florida, Georgia, Illinois, Indiana, New Jersey, and Wisconsin. In 2004, Inspectech expanded its geographic presence into Texas, Ohio, and Missouri through 7 acquisitions.

Commercial Appraisal Operations LandAmerica Valuation Corporation, formerly known as LandAmerica Commercial Appraisal Corporation, a subsidiary of the Company, offers commercial appraisals and valuations. These operations offer appraisals and valuations on all types of property including office, retail, industrial, multi-family, special purpose, and hospitality. Custom report formats are offered based on lender specifications in addition to all standard commercial reports.

Buyers Home Warranty In September 2004, the Company purchased Buyers Home Warranty Company (BHW), headquartered in California, which provides and services home warranty contracts in California, Texas, Arizona, Colorado, Nevada, New Mexico, and Oklahoma.

Investment Policies

The Company earns investment income from its portfolio consisting primarily of fixed-maturity debt securities issued principally by corporations and United States, state and local jurisdictions, as well as by United States government agencies. Additionally, the Company earns investment income through its portfolio of loans receivable at Centennial. The investment portfolio primarily resides in the Company s title underwriting subsidiaries, while the loan portfolio is reported in the Company s Financial Services segment. At December 31, 2004, substantially all of the Company s investment portfolio consisted of investment grade securities. Under the Company s investment guidelines, up to 20% of the investment portfolio may be invested in non-fixed maturity investments. The Company s portfolio is managed to comply

with the various state regulatory requirements while maximizing net after-tax yield. The Company generally does not invest in common stock issued by unaffiliated entities other than a 2% allocation to REIT securities. The investment portfolio is managed by professional investment advisors under guidelines that govern the types of permissible investments, investment quality, maturity, duration, and concentration of issuer. These guidelines and the Company s investment strategies are established and periodically reexamined by the Investment Funds Committee of the Company s Board of Directors. This committee also reviews the performance of the investment advisors on a quarterly basis. See Note 2 to the accompanying Consolidated Financial Statements.

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

Employees

As of December 31, 2004, the Company had 11,408 full time and 716 part time employees. The Company s relationship with its employees is good. No employees are covered by any collective bargaining agreements, and the Company is not aware of any union organizing activity relating to its employees.

ITEM 2. PROPERTIES

The Company owns an office building and adjacent real estate in Richmond, Virginia that is used for its corporate offices. This property consists of approximately 128,000 square feet of office space and parking facilities. In addition, the Company and its subsidiary LATF own certain properties that, in the aggregate, are not material to the Company s business taken as a whole. The Company s subsidiaries conduct their business operations primarily in leased office space. As of December 31, 2004, the Company had numerous leases for its branch offices and subsidiaries throughout the states in which they operate.

The Company s title plants constitute a principal asset. Title plants consist of copies of public records, maps, documents, previous reports, and policies indexed to specific properties in an area. The title plants are generally located at the office which serves a particular locality or in service centers serving multiple localities in major metropolitan areas. They enable title personnel to examine title matters relating to a specific parcel of real property as reflected in the title plant, and eliminate or reduce the need for a separate search of the public records. They contain material dating back a number of years and are updated (with the exception of certain title plants) through the addition of copies of documents filed of record which affect real property. The Company maintains title plants covering many of the areas in which it operates, although certain offices utilize title plants jointly owned and maintained with other title insurers. The Company capitalizes only the initial cost of title plants. The cost of maintaining such plants is charged to expense as incurred. The title plants and title examination procedures have been automated and computerized to a large extent in many areas.

On February 23, 1998, the Company entered into an Agreement Containing Consent Order (the Consent Order) with the Federal Trade Commission (the FTC) in connection with the acquisition of Commonwealth and Transnation. The Consent Order required, and the Company completed, the divestiture of certain title plants in 12 localities named in the Consent Order. Seven of such localities were in Florida, three were in Michigan, and one each was in

Washington, D.C. and St. Louis, Missouri. Pursuant to the terms of the Consent Order, the Company may not acquire, without prior notice to the FTC, any interest in a title plant in any of the named localities for a period of 10 years following the date of the Consent Order.

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

ITEM 3. LEGAL PROCEEDINGS

General

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

Litigation Not in the Ordinary Course of Business

On September 5, 2002, Thomas Branick and Ardra Campbell filed a representative suit on behalf of the general public against Southland Title Corporation (Southland), a subsidiary of the Company, in the Los Angeles Superior Court (Case No. BC 280961). The Complaint, as amended, pleads causes of action for unfair competition (California Business and Professions Code §§ 17200, et. seq.) and unfair business practices (California Business and Professions Code §§ 17500, et. seq.) and generally alleges that Southland improperly charged its customers for recording documents incident to real estate transactions and overcharged its customers for administrative fees. Plaintiffs seek injunctive relief and restitution. On September 3, 2004, the trial court granted Southland s Motion for Judgment on the Pleadings and on September 16, 2004 entered a final judgment dismissing this case. On November 15, 2004, Plaintiffs filed a Notice of Appeal of the judgment and the matter is currently pending in the Second District of the California Court of Appeal. Southland intends to vigorously defend the appeal. The parties are exploring opportunities for potential settlement and have agreed to participate in nonbinding Court of Appeal sponsored mediation scheduled for April 4, 2005. Based on the fact that the suit is still in its initial stages, at this time no estimate of the amount or range of loss that could result from an unfavorable outcome can be made.

On May 9, 2000, Romeo Jergess filed a putative class action suit (the Jergess Suit) in the United States District Court for the Eastern District of Michigan, Southern Division (Case No. 00-72124) against Transnation Title Insurance Company (Transnation), a subsidiary of the Company. The suit alleges that Transnation s rate for an owner s title insurance policy, charged in accordance with rates for new construction filed with the Insurance Bureau of the State of Michigan, are less than the rate paid by the lender for a simultaneously issued lender s title insurance policy, and that the lower rate paid by the builder/developer for the owner s policy involves an illegal kickback for a referral and an illegal splitting of fees in violation of the Real Estate Settlement Procedures Act (RESPA). On April 27, 2001, a similar suit was filed by Elaine Miller (the Miller Suit) in the same court (Case No. 01-71647) against Lawyers Title Insurance Corporation (Lawyers Title), a subsidiary of the Company. The plaintiffs in both suits seek an unspecified amount of damages equal to three times the amount of the charge for each simultaneously issued lender s title insurance policy in connection with a new home purchase commencing with the period one year before the filing of each complaint, plus costs, interest and attorneys fees. Transnation and Lawyers Title have engaged a forensic accountant to review plaintiffs estimate that the charges collected for such policies by Transnation and Lawyers Title from the class as originally defined is approximately $15 million. The Jergess Suit and the Miller Suit were consolidated on July 18, 2002 with cases pending against First American Title Insurance Company and Chicago Title Insurance Company. On December 5, 2002, the court certified a class defined as all individuals who, during the period commencing prior to one year of the filing of the applicable suit and ending on October 30, 2002, purchased a newly constructed one to four family dwelling or condominium and were charged for a lender s title insurance policy allegedly in violation of RESPA. On February 12, 2003, the United States Court of Appeals for the Sixth Circuit denied Transnation s and Lawyers Title s petitions for an interlocutory appeal of the class certification order. On October 30, 2003, the judge ordered that individuals otherwise meeting the class definition, but who closed transactions involving relevant policies between October 31, 2002 through October 30, 2003, would not be subject to a statute of limitations defense raised by Transnation Title or Lawyers Title between October 30, 2003 and October 31, 2004. On October 28, 2004, Transnation and Lawyers Title stipulated to an order that individuals otherwise meeting the class definition, but who closed transactions involving relevant policies between October 31, 2002 through October 30, 2004, would not be subject to a statute of limitations defense raised by Transnation or Lawyers Title between October 30, 2004 and October 31, 2005. The court currently has under consideration a Motion to proceed to trial with the certified class as originally defined. On January 13, 2005, the court denied Transnation s and Lawyers Title s motion to dismiss the case for lack of standing. On February 7, 2005, the court dismissed without prejudice Transnation s and Lawyers Title s Motion for Partial Summary Judgment with respect to those members of the class covered by the affiliated business exception under RESPA with the court indicating that the parties could resubmit the motion with additional information. The court has not yet ruled on the parties cross Motions for Summary Judgment on Count II of plaintiffs complaint alleging an illegal splitting of fees under RESPA. The parties have agreed to participate in nonbinding mediation scheduled for May 3-4, 2005. A trial date has been set for July 18, 2005. Transnation and Lawyers Title intend to vigorously defend the consolidated suits.

On June 22, 2004, Gateway Title Company, Inc., Commonwealth Land Title Company, Inc. and LandAmerica Financial Group, Inc. (Plaintiffs) filed a Complaint, subsequently amended by a First Amended Complaint filed June 25, 2004, in the Superior Court of California, County of Los Angeles, Central District, against the Mercury Company and its affiliates Financial Title, Alliance Title, Investors Title and various individuals including Joseph DiChiacchio, a former manager of LandAmerica (Case No. BC 317441) (collectively, the Defendants). The lawsuit claims substantial monetary and punitive damages for unfair competitive business practices in conjunction with Plaintiffs loss of over 200 employees in California, most of which appears to have occurred within an approximately twelve month period. On August 12, 2004, the Court granted a Temporary Restraining Order, followed by a request for a Preliminary Injunction, which was granted September 27, 2004 against the Defendants based upon a showing of significant likelihood of Plaintiffs prevailing on the merits combined with irreparable harm to Plaintiffs if injunctive relief did not issue. The injunctive relief generally prohibited the solicitation of Plaintiffs employees. The preliminary injunctive relief has now expired and discovery and the calculation of damages are underway. On December 13, 2004, Alliance Title Company, Inc., Financial Title Company, Inc., Roberto Olivera and Ray Arias filed a Cross-Complaint for unfair competitive business practices. On December 13, 2004, Mr. DiChiacchio also filed a Cross-Complaint alleging similar claims, including back wages and additional bonus payments. Plaintiffs deny, are disputing and intend to vigorously defend the Cross-Complaints. A trial date has been set for October 3, 2005. Management believes that damages caused to Plaintiffs by Defendants far exceed any claim of offset raised in the Cross-Complaints.

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

No matters were submitted to a vote of security holders during the fourth quarter of 2004.

EXECUTIVE OFFICERS

Senior management changes effective January 1, 2005 included the promotion of Theodore L. Chandler, Jr. to Chief Executive Officer of the Company. Mr. Chandler retained the title of President, and Mr. Charles H. Foster, Jr. retained the title of Chairman of the Board of the Company. Vice Chairman Janet A. Alpert retired December 17, 2004. Christine R. Vlahcevic was appointed Senior Vice President and Corporate Controller to replace John R. Blanchard who retired on December 31, 2004.

Set forth below are the persons who serve as executive officers of the Company, their ages and positions as of March 1, 2005, and their business experience during the prior five years. There are no family relationships between any of such persons and any director, executive officer or person nominated or chosen to become a director or executive officer.

Name	Age	Office and Experience
Charles H. Foster, Jr.	62	Chairman of the Board of the Company since January 1, 2005. Mr. Foster previously served as Chairman and Chief Executive Officer of the Company and Lawyers Title, positions he held for more than five years. Mr. Foster served as Chairman and Chief Executive Officer of Commonwealth and Transnation from June 1, 1999 to December 31, 2004.
Theodore L. Chandler, Jr.	52	President and Chief Executive Officer of the Company and each of Lawyers Title, Commonwealth and Transnation since January 1, 2005. Mr. Chandler previously served as President and Chief Operating Officer of the Company and each of Lawyers Title, Commonwealth and Transnation from January 1, 2004 to December 31, 2004. Mr. Chandler served as Chief Operating Officer of the Company and each of Lawyers Title, Commonwealth and Transnation from July 24, 2002 to December 31, 2003. Mr. Chandler served as Senior Executive Vice President of the Company and each of Lawyers Title, Commonwealth and Transnation from January 31, 2000 until July 24, 2002. Mr. Chandler was a member of the law firm of Williams Mullen until January 31, 2000, a position he held for more than five years.
G. William Evans	50	Chief Financial Officer of the Company and each of Lawyers Title, Commonwealth and Transnation since September 15, 1999.

Name	Age	Office and Experience
Michelle H. Gluck	45	Executive Vice President, General Counsel and Secretary of the Company and each of Lawyers Title, Commonwealth and Transnation since January 1, 2004. Ms. Gluck served previously as Vice President, Associate General Counsel and Assistant Secretary of Kmart Corporation from June 2001 to September 2003 and Vice President, Associate General Counsel and Assistant Secretary of The Sports Authority, Inc. from February 1999 to May 2001.
Kenneth Astheimer	56	Executive Vice President Agency Services of the Company since September 2002. Mr. Astheimer also serves as Executive Vice President for each of Lawyers Title, Commonwealth and Transnation, positions held for more than five years. Mr. Astheimer previously served as President and Chief Executive Officer of LandAmerica OneStop from January 2001 to September 2002. Mr. Astheimer served as Executive Vice President Regional Manager from January 1998 to January 2001.
Jeffrey C. Selby	59	Executive Vice President Commercial Services of the Company since January 1, 2004. Mr. Selby also serves as Executive Vice President of Commonwealth and Transnation, positions held since March 25, 1999 and for Lawyers Title, a position he has held for more than five years. Mr. Selby served as Executive Vice President - Director of National Commercial Services and Manager of National Agents and Affiliates of the Company from February 17, 1999 to December 31, 2003.
Glyn J. Nelson	51	Executive Vice President Residential Services of the Company and Lawyers Title since January 1, 2004 and Senior Vice President of Commonwealth and Transnation since May 1998. Prior to January 1, 2004, he served as Senior Vice President of the Company, a position he held for more than five years.
Melissa A. Hill	48	Executive Vice President Production and Process Improvement of the Company since January 1, 2004. Ms. Hill previously served as President of LandAmerica OneStop from August 2002 to December 2003. Ms. Hill served in a variety of capacities for the Company between April 2001 and August 2002. Ms. Hill was Chief Operating Officer of Enterra, a division of The Associates from January 1999 to April 2001.

Name	Age	Office and Experience
Christine R. Vlahcevic	42	Senior Vice President - Corporate Controller of the Company and each of Lawyers Title, Commonwealth and Transnation since January 1, 2005. Ms. Vlahcevic previously served as Controller of Chesapeake Corporation from October 2000 to December 2004 and as Chesapeake Corporation s Assistant Controller from October 1999 to September 2000.

In addition, the Board of Directors has appointed Albert V. Will to serve as an executive officer of the Company effective March 15, 2005. Mr. Will, age 49, will hold the office of Executive Vice-President Lender Services. Mr. Will previously served as President of Lincoln Abstract, LLC, a position he held from April 2004 to March 2005. Prior to April 2004, Mr. Will served as Executive Vice President, Radian Guaranty and President, Radianexpress.com of Radian Group, Inc., positions he held for more than five years.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Price of Common Stock and Dividends

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

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

	Price Range		
	High	Low	Dividends
Year Ended December 31, 2003			
First quarter	$ 40.10	$ 35.50	$ 0.07
Second quarter	48.91	39.40	0.07
Third quarter	50.54	43.55	0.10
Fourth quarter	53.18	44.60	0.10
Year Ended December 31, 2004			
First quarter	$ 57.73	$ 40.84	$ 0.10
Second quarter	46.20	35.51	0.10
Third quarter	46.05	36.00	0.15
Fourth quarter	57.57	45.7	0.15

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

Because the Company is a holding company, its ability to pay dividends will depend largely on the earnings of, and cash flow available from, its subsidiaries. In a number of states, certain of the Company s insurance subsidiaries are subject to regulations that require minimum amounts of statutory surplus. Under these and other such statutory regulations, approximately $83.0 million of the net assets of the Company s consolidated insurance subsidiaries are available for dividends, loans or advances to the Company during 2005.

In addition to the minimum statutory surplus requirements described above, these insurance subsidiaries are also subject to state regulations that require approval of the insurance regulators of such states prior to payment of any extraordinary dividends or distributions. The Company received approval from the Virginia Bureau of Insurance for an extraordinary dividend of $100.0 million from Lawyers Title Insurance

Corporation in connection with the acquisition of LandAmerica Tax & Flood Services, Inc., formerly known as LERETA Corp. (LATF), on October 1, 2003.

The following table summarizes the insurance laws and regulations that restrict the amount of dividends or distributions that Commonwealth, Lawyers Title and Transnation are permitted to distribute to the Company in the 12-month period ending December 31, 2005 without prior regulatory approval:

Subsidiary	Regulatory Agency	Regulatory Limitation	Financial Limitation [1]
Commonwealth	Pennsylvania Department of Insurance	Payment of dividends or distributions may not exceed the *greater* of: 10% of such insurer s surplus as of the preceding year end, or the net income of such insurer for such preceding year.	$ 53.2 million
Lawyers Title	Virginia Bureau of Insurance	Payment of dividends or distributions is limited to the *lesser* of: 10% of such insurer s surplus as of the preceding December 31, or the net income, not including realized capital gains, of such insurer for the preceding calendar year.	$ 23.8 million
Transnation	Arizona Department of Insurance	Payment of dividends or distributions is limited to the *lesser* of: 10% of such insurer s surplus as of the preceding December 31, or such insurer s net investment income for the preceding calendar year.	$ 6.0 million

(1) Based on statutory financial results for the year ended December 31, 2004.

In addition to regulatory restrictions, the Company s ability to declare dividends is subject to restrictions under a Revolving Credit Agreement, dated as of November 6, 2003 between the Company and a syndicate of banks led by SunTrust Bank, and amended by the First Amendment to Revolving Credit Agreement dated as of March 17, 2004, the Second Amendment to Revolving Credit Agreement dated as of April 30, 2004, and the Third Amendment to Revolving Credit Agreement dated as of October 27, 2004 (as amended, the Revolving Credit Agreement), that generally limit the aggregate amount of all cash dividends and stock repurchases by the Company to 40% of its cumulative consolidated net income arising after December 31, 2002. As of December 31, 2004, approximately $65.8 million was available for the payment of dividends by the Company under the Revolving Credit Agreement. Management does not believe that the restrictions contained in the Revolving Credit Agreement will, in the foreseeable future, adversely affect the Company s ability to pay cash dividends at the current dividend rate.

Number of Shareholders of Record

As of March 4, 2005, there were approximately 1,207 shareholders of record of the Company s Common Stock, including the Depository Trust Corporation, which acts as a clearinghouse and nominee for multiple brokerage and custodial accounts.

Issuer Purchases of Equity Securities

c) The following table sets forth the details of purchases of common stock under the Executive Voluntary Deferral Plan and Outside Directors Deferral Plan that occurred in the fourth quarter of 2004:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
October 1 through October 31, 2004	1,313	$ 47.95		
November 1 through November 30, 2004	425	$ 48.99		
December 1 through December 31, 2004				1,000,000

(1) The share repurchases in the above table are the result of two employee benefit plans.

(2) A share purchase plan (Purchase Plan) was announced by the Company on December 8, 2004 and provides for the purchase of up to 1.0 million shares or $60.0 million. The Company had not purchased any of the shares authorized under the Purchase Plan as of December 31, 2004.

(3) Purchases other than the Purchase Plan were made on behalf of a trust maintained by the Company for the Executive Voluntary Deferral Plan and the Outside Directors Deferral Plan. For additional information on these plans, see the Notes to the accompanying Consolidated Financial Statements.

ITEM 6. SELECTED FINANCIAL DATA

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

	2004	2003	2002	2001	2000
For the year ended December 31:	**(Dollars in millions, except per share amounts)**				
Revenues	$ 3,522.1	$ 3,406.0	$ 2,586.6	$ 2,170.5	$ 1,802.4
Net income (loss)	146.3(1)(2)	192.1(2)	149.4(3)	60.3(4)	(80.8)(5)
Net income (loss) per common share	8.07	10.43	8.10	3.42	(6.60)
Net income (loss) per common share assuming dilution	8.01	10.31	8.04	3.24	(6.60)
Dividends per common share	0.50	0.34	0.24	0.20	0.20
At December 31:					
Total assets	3,290.0	2,717.5	1,910.8	1,707.5	1,619.0
Shareholders equity	1,151.1	1,044.5	863.6	727.5	644.1

(1) In the fourth quarter of 2004, the Company recorded $9.2 million, or $5.9 million after taxes, in litigation settlement costs after taxes. Additionally, the Company amended its pension plan effective December 31, 2004 to cease future accruals resulting in a curtailment gain of $4.8 million, or $3.1 million after taxes.

(2) In 2004, the Company recorded $6.5 million, or $4.2 million net of taxes, in exit and termination costs. In 2003, the Company recorded exit and termination costs of $0.3 million, or $0.2 million net of taxes. Additionally, the Company recorded title plant impairments of $5.0 million, or $3.2 net of taxes, and $4.9 million, or $3.2 million net of taxes, in 2004 and 2003, respectively. See Note 18 to the accompanying Consolidated Financial Statements.

(3) In 2002, the Company recorded exit and termination costs of $13.4 million, or $8.7 million net of taxes.

(4) In the fourth quarter of 2001, the Company reassessed the carrying value of intangibles and capitalized software which resulted in charges to earnings of $51.4 million, or $32.9 million after taxes.

(5) The net loss reported by the Company for the fiscal year ended December 31, 2000 resulted from a change in the Company s method for assessing the recoverability of goodwill (not associated with impaired assets) during the fourth quarter of 2000 which resulted in charges of $172.5 million, or $110.4 million after taxes.

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

Overview

The Company s long-term goal is to enhance its position as one of the largest providers of real estate transaction services. To accomplish this objective, the Company has expanded its operations through internal growth and selective strategic acquisitions. The Company s business operations are organized under three primary business segments: Title Insurance, Lender Services and Financial Services. Other operating business segments not required to be reported separately are reported in a category called Corporate and Other. These groupings of business operations are consistent with the way the Company s management views its business results and consistent with Financial Accounting Standards Board Release No. 131, *Disclosures about Segments of an Enterprise and Related Information.*

The Company s dominant business operation continues to be its Title Insurance segment which accounted for 93.9% and 97.4% of the Company s operating revenues in 2004 and 2003, respectively.

Title Insurance

The Company s Title Insurance segment is influenced by the level of real estate activity and the cost and availability of mortgage funds. The demand for the Company s title insurance products and services is dependent upon, among other things, the volume of residential and commercial real estate transactions, including mortgage refinancing transactions. The volume of these transactions has historically been influenced by factors such as interest rates and the state of the overall economy. For example, when interest rates are increasing or during an economic downturn or recession, real estate activity typically declines and the Company experiences lower revenues and profitability. The cyclical nature of the Company s business has caused fluctuations in revenues and profitability in the past and is expected to do so in the future. Prior to 2002, the Company also experienced seasonality within a particular year. Due to the historically low interest rates in the last three years, the Company s results have not followed their typical seasonal patterns. The Company anticipates that its normal seasonality will return in future periods. See Cyclicality and Seasonality below.

The Company s Title Insurance segment revenues include title insurance premiums, escrow fees and fees for other ancillary services. Premiums and fees are determined both by competition and by state regulation. In addition, Title Insurance segment revenues are affected by the Company s sales and marketing efforts. Revenue from Company-owned title operations is recognized at the time real estate transactions close. There can be a several month delay between the time that a title order is opened and the real estate transaction closes. Consequently, expenses may be incurred related to a direct title order in advance of revenues being recognized. Operating revenues from independent agents are recognized when the Company receives notification from the agent that a policy has been issued. Agent notification typically occurs later than the closing of the real estate transaction. The delay in notification varies from year to year, from agent to agent and between regions of the country. During 2004, the Company experienced an average delay between closing and reporting by agents of approximately 125 days. The delay in notification by agents not only delays revenue recognition but may also create a significant lag between changes in general real estate activity and the impact of such changes on the portion of the Company s Title Insurance segment revenues attributable to agents.

The Company s profit margins are affected by several factors, including the volume of real estate and mortgage refinance activity, title policy type and amount. Volume is an important determinant of profitability because the Company, like any other real estate services company, has a significant level of fixed costs arising from personnel, occupancy costs and maintenance of title plants. The Company utilizes title orders opened as a forward-looking indicator of business volume. 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. The Company s results are also impacted during times of increasing or decreasing volumes since the Company cannot immediately match its staffing requirements to changes in its business volumes.

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

Generally, title insurance claims 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. See Critical Accounting Estimates Policy and Contract Claims for further discussion. In addition, the Company may be subject to claims and litigation other than in the ordinary course of business. In 2004, the Company settled certain outstanding litigation resulting in a pre-tax charge to earnings of approximately $9.2 million in the fourth quarter. In addition, in 2004, the Company received requests for information and subpoenas from certain states seeking information relating to investigations of the business practices of the Company and the title insurance industry. Multiple states are specifically investigating reinsurance. The Company may receive additional requests for information and/or subpoenas in the future. The Company expects to cooperate with all such requests or subpoenas. State investigations may pose a significant challenge in 2005. For a discussion of pending material legal proceedings, see Item 3 Legal Proceedings.

Operating revenues in 2004 were slightly lower than in 2003 reflecting reduced residential activity partially offset by increased revenue achieved through acquisitions and increased levels of commercial real estate activity. Operating revenues in 2003 benefited from record setting levels of mortgage and refinancing activities. For fiscal year 2005, the Company expects interest rates to rise and growth to continue through acquisitions; however, as interest rates rise, the volume of residential activity is expected to continue to decline consistent with the cyclical nature of the title insurance business. As a result, operating results for the years ended 2002 through 2004 should not be viewed as indicative of results for any future period. To counter this trend, the Company has initiated a sales enhancement process to spur organic sales growth. The sales process trains the Company s sales personnel to effectively market the Company s title insurance and related products and services to its customers.

The Company continually evaluates its cost structure to optimize it for anticipated business levels. In response to declining mortgage volumes, the Company implemented a cost reduction program begun in the fourth quarter of 2003 aimed at reducing staffing and cost levels within existing operations to a level more consistent with anticipated transaction volumes. As a result, in the first quarter of 2004, the Company announced plans to further reduce its cost structure within existing operations by at least $70 million on an annualized basis. At June 30, 2004, the Company had implemented reductions to achieve at least the targeted cost savings. Although the Company s staffing and cost levels were reduced as a result of the aforementioned plans, the Company saw an overall increase in salaries and employee benefits and general and administrative expenses during 2004 primarily due to the Company s acquisitions.

In 2005, the Company will continue its evaluation and integration of acquisitions. The Company completed 10 Title Insurance segment acquisitions during 2004 and will evaluate potential acquisition opportunities as they arise.

Lender Services

The Company s Lender Services segment provides services to regional and national lending institutions which complement those offered in the Company s title insurance business. These services consist primarily of real estate tax processing and flood certification services, mortgage credit reporting, default management services, and mortgage loan subservicing. With the exception of a portion of default management, the services provided by this segment are the result of businesses acquired by the Company during 2004 and 2003. In December 2004, the Company purchased LoanCare Servicing Center, Inc. (LoanCare), a large mortgage loan subservicer. In October 2003, the Company entered the business of providing flood certification and real estate tax services to mortgage lenders by purchasing LandAmerica Tax & Flood Services, Inc., formerly known as LERETA Corp. (LATF), one of the largest tax and flood service companies in the United States. The Company initially entered the credit information business for the mortgage lending industry through its acquisition in August 2003 of INFO1 Holding Company, Inc., a wholly-owned subsidiary of the Company s subsidiary LandAmerica Credit Services, Inc. (LACS). During 2004, the Company expanded the national scope of its businesses in these areas through the purchase of one flood certification business, four credit reporting businesses and one default management business.

The Lender Services segment currently realizes approximately half of its reported revenues through service revenues associated with tracking and reporting of real estate tax payments and flood zone certifications related to mortgage loans for lending institutions. The Company s servicing agreements typically call for the Company to service the mortgage loan until cancellation or sale. The lenders pay for these services at the time they add a loan to their servicing portfolio. The Company defers a significant portion of its revenue received for these services to account for the life of loan servicing aspects of the contracts. As a result, revenue reported in the financial statements represents the amortization of both current and prior service fees and is not representative of new contract sales levels. Expenses on the other hand are charged to the income statement as incurred and are not deferred. Thus, an understanding of the levels of deferred revenues or new contract cash received in this area is critical to understanding the relative strength of underlying business related to tax and flood services. The estimated life of loans is reviewed regularly to determine if there have been changes in contract lives and/or changes in the number or timing of prepayments, and adjusted to reflect current trends. The Company is required in certain instances to reimburse part of the fees should the lender sell the loan to another party. See further discussion in Critical Accounting Estimates below.

Revenues in mortgage credit reporting, default management services and loan subservicing are recognized when the report or service is delivered to the customer.

This segment has a substantial opportunity to leverage the Company s Title Insurance segment business relationships to cross-sell services to other financial institutions. A significant challenge for these businesses is their integration into the Company s overall structure without jeopardizing their current business relationships. During 2004 the Company began offering a bundled product solution, primarily to its national lender customers, which includes products offered by the Title Insurance segment and businesses included in Lender Services. The Company expects to continue expanding organically and by acquisition in this segment and by focusing on the realization of cross-selling opportunities.

Financial Services

The business reported in this segment includes Orange County Bancorp and its wholly-owned subsidiary, Centennial Bank, a California industrial bank acquisition the Company made in November 2003 (Centennial).

Centennial s primary business is the origination and bulk purchase of commercial real estate loans in the Southern California marketplace and is dependent on the viability of the commercial real estate market in Southern California. Deposits are solicited through the internet for both certificates of deposit and passbook savings accounts. As an industrial bank, Centennial does not accept demand deposits, such as checking accounts, that provide for payment to third parties. Centennial does not offer banking services such as credit cards or automated teller machines. The Company utilizes Centennial to hold a portion of its escrow deposits. The Company anticipates expanding its utilization of Centennial to facilitate escrow balance transactions.

Corporate and Other

This group includes businesses that are not significant enough in size to be reported as separate segments as well as the unallocated portion of the corporate expenses (including unallocated interest expense) related to the Company s corporate offices in Richmond, Virginia. The businesses reported in this group provide commercial and residential inspections, commercial appraisals and assessments, and home warranties.

The Company s assessment business is managed by the Company s LandAmerica Assessment Corporation subsidiary that was acquired in 2002 and which is headquartered in California. This business provides due diligence services to commercial customers throughout the United States, Canada, Mexico, the Caribbean and Europe. Revenue is recognized upon completion of the services to the customer.

The Company s commercial and residential inspection services are run by the Company s Inspectech, Inc. subsidiary. Its business is highly dependent on the real estate industry and the levels of residential home sales and refinancings. Inspectech, Inc. charges a flat fee for each transaction which is generally collected at the time of service.

The Company s commercial appraisal and valuation operation is run by the Company s subsidiary LandAmerica Valuation Corporation, formerly known as LandAmerica Commercial Appraisal Corporation. Its business is highly dependent on the commercial real estate market. A fee is charged based on the type and complexity of work performed.

In September 2004, the Company purchased Buyers Home Warranty Company (BHW), headquartered in California, which provides and services home warranty contracts in California, Texas, Arizona, Colorado, Nevada, New Mexico, and Oklahoma. Fees charged by this business are deferred upon receipt and amortized over the life of the underlying contract which is generally one year.

Critical Accounting Estimates

This discussion and analysis of the Company s financial condition and results of operations is based upon the Company s accompanying Consolidated Financial Statements which have been prepared in accordance with accounting principles generally accepted in the United States. The Company considers the following accounting estimates to be critical in preparing and understanding such statements. Actual results could differ from these estimates. Significant accounting policies are disclosed in Note 1 to the accompanying Consolidated Financial Statements.

Policy and Contract Claims In the Title Insurance segment, consistent with the requirements of FAS No. 60, a provision for estimated future claims payments is recorded at the time policy revenue is recorded. This estimate is recorded as a percentage of revenue. The payment experience of the Company and the title insurance industry extends for more than 20 years after the issuance of a policy. Due to the length of time over which claim payments are made and regularly occurring changes in underlying economic conditions, these estimates are subject to variability. The Company considers factors such as historical timing of claims reported and historical timing of claims paid over the period in which policies are effective against actual experience by year of policy issue to determine the amount of claims reserves required for each year for which policies are outstanding. The Company also considers the impact of current trends in marketplace activity, such as refinance activity which may shorten the time period a policy is outstanding, bankruptcies, and individual large claims attributable to any particular period in determining the expected liability associated with each year. Since there is an extended time period for which the Company is liable, slight changes in current claims experience can result in a significant impact in the amount of liability required for potential Incurred But Not Reported (IBNR) claims. Loss provision rates are reviewed periodically and adjusted by management as experience develops or new information becomes known. The Company s independent consulting actuaries review projections of required reserves as considered necessary during the year and at year-end. These projections are compared to recorded reserves to evaluate the adequacy of such recorded reserves and any necessary adjustments are included in current expenses. The impact on pre-tax income of a 1 percent change in the loss rate for title operations on current year business volumes is as follows:

Increase in Loss Rate of 1%	$ (32.4) million
Decrease in Loss Rate of 1%	$ 32.4 million

Purchase Accounting and Goodwill and Long-Lived Assets Valuations During the years ended December 31, 2004 and 2003, the Company completed 27 and 19 acquisitions, respectively. These acquisitions were intended to grow the Company s title operations and expand its real estate transaction services portfolio. As a result of these acquisitions, the Company assigned fair values to the assets and liabilities purchased and increased the amount of goodwill and other intangibles recorded on its balance sheet. The Company utilizes the services of an independent appraisal company to assist it with the allocation of purchase price to acquired assets (including goodwill) and liabilities.

Effective January 1, 2002, the Company adopted SFAS No. 142, Goodwill and Other Intangibles, which required that the Company discontinue amortizing goodwill and begin assessing the recoverability of goodwill for each of its reporting units. Reporting units are business components of an operating segment, and goodwill is assigned to the reporting unit which benefits from the synergies arising from each business acquisition. The Company tests for the recoverability of goodwill annually or sooner if events or changes in circumstances indicate that the carrying amount of its reporting units, including goodwill, may exceed their fair values. The fair value of the reporting units is determined using cash flow analysis which projects the future cash flows produced by the reporting units and discounts those cash flows to the present value. The projection of future cash flows is necessarily dependent upon assumptions on the future levels of income as well as business trends, prospects and market and economic conditions. When the fair value is less than the carrying value for the net assets of the reporting unit, including goodwill, impairment loss may be charged to operations. Based on the Company s annual analysis, no impairment was identified for the year ending December 31, 2004. See further details in Note 18 to the accompanying Consolidated Financial Statements. The Company s intangible assets include technology, customer relations, and non-competition arrangements which are all amortized over their useful lives. Pursuant to SFAS No. 142, for intangible assets that are amortizable with definite lives, tests for impairment must be performed if conditions exist that indicate the carrying value may not be recoverable. Such conditions may include a loss of a significant customer or a change in the assessment of future operations. Based on our review for the year ending December 31, 2004, there was no impairment of intangible assets.

The Company also reviews the status of its title plants at least annually. Periodically, the Company determines that a title plant will no longer be used or has been abandoned. In those instances, the Company takes a charge to earnings when it determines that the plant has been abandoned. The Company anticipates that it may take additional charges in future periods as state and local courts and municipalities continue to automate their property records and make them available through electronic media. As part of its process of reviewing long-lived assets, during 2004 and at December 31, 2003 the Company identified 17 and 21 title plants, respectively, in the Title Insurance segment with aggregate book values of $5.0 million and $4.9 million, respectively, that will not continue to be used or maintained. Accordingly, the Company recorded impairment losses of $5.0 million and $4.9 million, respectively, which is reflected in Write-off of title plants in the accompanying Consolidated Financial Statements.

Deferred Tax Assets Many deductions for tax return purposes cannot be taken until the expenses are actually paid, rather than when the expenses are recorded under Generally Accepted Accounting Principles (GAAP). In these circumstances, under GAAP, companies accrue for the tax benefit expected to be received in future years if, in the judgment of management, it is more likely than not that the Company will receive such benefits. The most significant factor in this determination is the projected future timing and amounts of taxable income. If management determines that it is no longer more likely than not that an asset will be utilized, the Company would record a valuation allowance which would reduce net income in the period recorded. Deferred tax assets created from tax benefits expected to be realized at December 31, 2004 and 2003 relate primarily to policy and contract claims, goodwill, pension liability, deferred service arrangements, allowance for doubtful accounts and employee benefit plans offset by deferred tax liabilities primarily related to other intangibles, unrealized gains on the Company s investment portfolio, title plants and fixed assets. Based upon the Company s historical results of operations, the existing financial condition of the Company and management s assessment of all other available evidence, management believes that these assets will more likely than not be realized. See Note 10 to the accompanying Consolidated Financial Statements.

Pension and Other Postretirement Benefits The Company has pension and other retirement benefit plans covering substantially all employees. These plans are valued annually by an actuary who employs significant assumptions that are particularly important when determining our projected liabilities for pension and other postretirement benefits. Payments related to these benefits will be made by the Company over a lengthy period and the projected liability will be impacted by assumptions regarding inflation, investment returns and market interest rates, changes in the benefit obligations and laws and regulations covering the benefit obligations.

One significant assumption is the expected long-term rate of return on plan assets. A lower expected return on plan assets increases the amount of pension expense and the liability decreases as the discount rate increases. The use of expected long-term rates of return may result in recognized returns that are greater or less than actual returns in any given year. Over time the expected returns are used to approximate actual long-term returns which result in a pattern of expense recognition that more closely matches the service lives of typical employees. The Company uses long-term and actual historical returns, current and targeted asset mix and future estimates of long-term investment returns to develop its long-term return for plan assets. The Company s anticipated rate of return was 8.0% as of the 2004 valuation date. Another significant assumption in valuing the pension liability is the discount rate. In general, the liability increases as the discount rate decreases and the liability decreases as the discount rate increases. The discount rate utilized is based on rates on high quality fixed income debt instruments available at the end of each valuation period. The Company utilized a discount rate of 6.0% in determining its 2004 benefit obligations.

Changing the discount rate or long-term rate of return would result in the following impact on the pension benefit liability:

	Projected Benefit Obligation	
Increase of 1% in discount rate	$	(20.3)million
Decrease of 1% in discount rate	$	23.8million

Additionally, assumed health care cost trend rates have a significant effect on the amounts reported for the other postretirement benefits. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	One-Percentage-Point Increase	One-Percentage-Point Decrease	
	(In millions)		
Effect on total of service and interest cost	$ 0.1	$	(0.1)
Effect on postretirement benefit obligation	$ 1.7	$	(1.5)

On October 26, 2004, the Company announced that effective December 31, 2004 it was ceasing future accruals to the retirement plan accounts of all plan participants provided in the Company s Cash Balance Pension Plan (the Plan) other than annual interest credits on account balances. The changes impacting the Plan most significantly are fully vesting accrued benefits to participants in the Plan as of December 31, 2004, and limiting participation in the Plan to those individuals who were participants in the Plan as of December 31, 2004. See further information in Note 12 to the accompanying Consolidated Financial Statements. As a result of the change, the Company had to adopt curtailment accounting for the Plan as specified under FAS No. 88. The curtailment resulted in the Company recording a one-time gain of approximately $4.8 million and increasing the minimum pension liability by $1.1 million at December 31, 2004.

Deferred Service Arrangements When the Company acquired tax and flood and home warranty companies, all of their assets and liabilities were adjusted to fair value in accordance with purchase method accounting. In making these adjustments, each entity s deferred revenue account, representing amounts which had been deferred and would have been amortized over the remaining lives of the contracts for the provision of real estate tax monitoring, flood certification services, and home warranty services existing at the acquisition date, was eliminated. The deferred revenue account was replaced with an account called deferred service obligations representing the estimated fair value of the obligation to provide the required services over the remaining life of the subject contracts. This account, established as of the acquisition date, is being amortized over the remaining lives of existing contracts.

As previously noted, real estate tax monitoring, flood certification fees, and home warranty service fees received on new contracts entered into since the acquisition dates are deferred and amortized over the estimated lives of the contracts to which they relate. The sum of amortization of the initial deferred service obligation and amortization related to fees accrued on new contracts represent the earned fee amount for the period.

The estimated remaining contractual life for real estate tax monitoring services and flood certification services can vary depending on a number of factors, including but not limited to, type of loan, lender, credit quality of the borrower, interest rates, and portfolio turnover. The

Company evaluates the portfolio of loans under service quarterly to determine the appropriate portfolio life for loans under service. An increase/decrease of six months in the average service life for all loans serviced would result in the following approximate changes to revenue recognized for real estate tax and flood monitoring revenues:

	Revenue Recognized
Increase of 6 months	$ (4.5)million
Decrease of 6 months	$ 4.5million

Cyclicality and Seasonality

The title insurance business is closely related to the overall level of residential and commercial real estate activity, which is generally affected by the relative strength or weakness of the United States economy. In addition, title insurance volumes fluctuate based on the effect that changes in interest rates have on the level of real estate activity. Periods of increasing interest rates usually have an adverse impact on real estate activity and therefore premium and fee revenues. Due to the historically low interest rates in the past three years, the Company s results have not followed their typical seasonal patterns. The Company anticipates that its normal seasonality will return in future periods.

Historically, residential real estate activity has been generally slower in the winter, when fewer families buy or sell homes, with increased volumes in the spring and summer. Residential refinancing activity is generally more uniform throughout the seasons, but is subject to interest rate variability. The Company s Title Insurance segment 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. Due to historically low interest rates in the last three years, the Company s results have not followed the typical seasonal patterns. In 2004, 2003 and 2002 the Company s fourth quarter revenues were stronger than the third quarter primarily due to increased activity in the commercial real estate market each year and as a result of an increase in non-title operations in 2004 and an increase in refinance activity in the residential real estate market in 2003 and 2002.

The Company s Lender Services segment has similar seasonal trending. However, due to the nature of the revenue deferrals made in this segment, as noted above, the impact on the Company s results of operations will differ. In instances where the Company receives cash in advance for services for real estate tax payment and flood certification services, the revenue is deferred and amortized ratably over the anticipated life of the loan servicing. This ratable amortization has the impact of reducing the volatility in revenue related to this segment; however, loss of a customer may accelerate recognition of revenue in certain periods resulting in one-time volatility.

For additional information, see Item 1 Business Cyclicality and Seasonality.

Results of Operations

Operating Revenues

A summary of the Company s operating revenues at December 31 is as follows:

	2004	%	2003	%	2002	%
			(Dollars in millions)			
Title Insurance						
Direct Operations	$ 1,397.9	40.6%	$ 1,374.3	41.1%	$ 1,095.6	43.2%
Agency Operations	1,837.7	53.3%	1,885.5	56.3%	1,403.9	55.4%
	3,235.6	93.9%	3,259.8	97.4%	2,499.5	98.6%
Lender Services	149.6	4.3%	49.0	1.5%	1.9	0.1%
Financial Services	0.7	0.1%	0.1			
Corporate and Other	58.6	1.7%	36.5	1.1%	32.2	1.3%
Total	$ 3,444.5	100.0%	$ 3,345.4	100.0%	$ 2,533.6	100.0%

Title Insurance Operating revenues from direct title operations increased 1.7 percent in 2004 from 2003. The increase in 2004 was primarily related to acquisitions of title agents in the past two years including County Title Holding Corporation (Southland) in April 2004 and Gateway Title Company in November 2003 and increased levels of commercial activity partially offset by a reduction in residential refinancing transactions. All acquisitions by the Company in this segment accounted for an increase in direct operations operating revenues of $181.5 million for 2004 as compared to 2003. The reduction in refinancing transactions resulted in a decrease in the number of title policies issued by the Company s direct operations in 2004, as compared to 2003, of 27.5 percent, excluding acquisitions, that was partially offset by an increase in the fee per closed order. The reduction in refinancing transactions caused a change in the mix toward fewer refinancing and more purchase title policies which have more revenue per policy associated with them. Orders closed by the Company s direct title operations were, excluding acquisitions, 918,000 and 1,110,200 during 2004 and 2003, respectively. The average fee per closed order, which includes title insurance premiums and other revenue related to transactions by direct operations, was $1,522 in 2004 versus $1,238 in 2003. The fluctuations noted in the number of policies issued and average fees per closed order were primarily attributable to the relative changes in mortgage activity year-over-year, as mentioned above, as well as an increase in commercial activity. Operating revenues from agency title operations decreased by 2.5 percent in 2004 compared to 2003. This decrease was primarily attributable to the changes in refinancing activity that the Company has experienced. An additional factor is the timing in the reporting of transactions by agents. The timing of policy reporting, and therefore revenue reporting by agents varies from year to year, from agent to agent and between regions of the country.

Operating revenues from direct title operations increased 25.4 percent for the year ended December 31, 2003 over the year ended December 31, 2002. This increase was due primarily to residential refinancing activity, the impact of acquisitions made in 2003 and increases in commercial real estate activity. The number of title policies issued by the Company s direct operations increased for 2003 compared to 2002 by 26.4 percent, excluding acquisitions, while the average fee per closed order decreased from $1,253 per policy in 2002 to $1,238 in 2003 due to a change in mix toward more refinancing which have less revenue per policy associated with them. Policies issued by the Company s direct title operations were 1,110,200 and 873,800 during 2003 and 2002, respectively. Revenues from acquisitions in 2003 accounted for an increase of $18.5 million for the year ended December 31, 2003 as compared to 2002. Operating revenues from agency title operations increased by 34.3 percent in 2003 over 2002. This increase was primarily attributable to the impact of increased residential refinancing activities. As noted above, the timing of policy reporting, and therefore revenue reporting varies by agent.

The Company anticipates that Title Insurance segment revenue will decrease in 2005 from 2004 levels due to expected lower refinance and home purchase activity resulting from anticipated higher interest rates.

Lender Services As a result of acquisitions, operating revenues in the Lender Services segment increased substantially in 2004 as compared to 2003. This increase was primarily driven by LATF, purchased in October 2003, and LACS, purchased in August 2003. LATF revenue increased to $74.1 million in 2004 from $22.1 million in 2003. LATF, the real estate tax processing and flood certification business, receives cash in advance for products that require it to provide service over the life of the loan. In 2004, the Company s real estate tax processing and flood certification services revenue was made up of gross receipts of $100.1 million, reduced by deferred recognition of revenue for $83.4 million of these receipts and increased by the recognition into revenue of approximately $57.2 million of its previously deferred service arrangements. The deferred service arrangements represent the amount of revenue that will be recognized over the anticipated service life of contracts related to LATF. The service life of the Company s portfolio, which is reviewed quarterly, has increased by 40.9 percent compared to 2003. The expected service life increases with an increasing mortgage interest rate environment because loans tend to be outstanding longer in periods when interest rates increase. This reduces the amount of deferred service arrangements that is amortized into revenue for each period on its life of loan products. If interest rates vary from the current expected trend, the estimated service life will increase or decrease inversely to changes in interest rates. LACS revenue increased to $58.4 million in 2004 from $16.1 million in 2003 due to the inclusion of a full year s operating revenue from the Company s original acquisition in August 2003 and the acquisitions it made to this business in 2004.

Similarly, operating revenues increased substantially in Lender Services in 2003 over 2002 due to the above noted acquisitions. In 2003, the Company s real estate tax processing and flood certification services businesses had gross receipts of $26.7 million, decreased by the deferral of revenue recognition for $21.1 million of these receipts and increased by $15.4 of revenue recognition of its total deferred service arrangements. LACS contributed $16.1 million to Lender Services revenue in 2003. The Company anticipates higher revenues in 2005 in the Lender Services segment due primarily to acquisitions.

Financial Services The increase in operating revenues between 2003 and 2004 and in 2003 compared to 2002 was caused by the acquisition of Centennial Bank in November 2003.

Corporate and Other Operating revenues in Corporate and Other increased by approximately $22.1 million, or 60.5 percent, between 2004 and 2003 primarily due to the recent acquisitions in the Company s residential inspection, commercial appraisal and assessment and home warranty businesses. The increase in revenue in 2003 over 2002 is due to increases in the residential inspection and commercial appraisal and assessment businesses of $14.8 million as well as an increase of $3.7 million related to an increase in the equity in unconsolidated subsidiaries, offset by a reduction in revenues of $13.8 million related to the residential appraisal business that the Company exited in 2002. The Company anticipates that revenue in Corporate and Other will continue to increase in 2005 as a result of the acquisitions made in 2004.

Investment and Other Income

Investment and other income totaled $71.8 million, $52.1 million and $51.7 million in 2004, 2003 and 2002, respectively. The increase of $19.7 million, or 37.8 percent, in 2004 compared to 2003 and the increase of $0.4 million from 2002 to 2003 is primarily the result of the acquisition of Centennial in December 2003 which resulted in increased interest income of $19.4 million in 2004 and $1.5 million in 2003, respectively. Partially offsetting the increase in 2003 was a decrease in interest income related to lower yields on the Company s remaining investment and cash equivalent portfolio. The Company s investment earnings are primarily derived from its fixed maturity securities as well as loans receivable related to Centennial.

The Company anticipates that investment and other income will increase in 2005 over 2004 due to higher loan balances and due to increased deposits of the Company s escrow accounts at Centennial.

Net Realized Investment Gains

Net realized investment gains totaled $5.8 million, $8.5 million and $1.3 million in 2004, 2003 and 2002, respectively. The fluctuation in net realized investment gains is primarily due to the timing of the repositioning of a portion of the Company s investments to fund, in part, the acquisitions of LATF and LACS.

Agents Commissions

A summary of agents commissions and related revenues in the Title Insurance segment is as follows:

	2004	2003	2002
		(Dollars in millions)	
Agents commissions	$ 1,471.8	$ 1,511.6	$ 1,116.2
Agent revenues	1,837.7	1,885.5	1,403.9
% Retained by agents	80.1%	80.2%	79.5%

The commission rate paid to agents varies by geographic area in which the commission was paid and by individual agent agreement. In early 2004 and throughout 2003, the Company experienced increasing commission rates attributable to increased competition for agents. During the remainder of 2004, the Company experienced a moderation of such increases due to its acquisition of title agencies and expects commission rates for 2005 to be consistent with levels at the end of 2004.

Salaries and Employee Benefits

A summary of the Company s salaries and other personnel costs is as follows:

	2004	%	2003	%	2002	%
			(Dollars in millions)			
Title Insurance	$ 837.1	86.2%	$ 786.8	91.6%	$ 643.9	93.1%
Lender Services	65.2	6.7%	22.6	2.6%	1.4	0.2%
Financial Services	2.2	0.2%	0.2	0.0%		
Corporate and Other	66.5	6.9%	49.5	5.8%	46.0	6.7%
Total	$ 971.0	100.0%	$ 859.1	100.0%	$ 691.3	100.0%

Title Insurance The Company s Title Insurance segment accounted for approximately 86.2% of the Company s total salaries and other personnel costs in 2004. The Title Insurance segment, in particular non-agency or direct operations, is labor intensive and as a result a significant variable expense component for this segment is salaries and other personnel costs. The Company manages personnel expenses to reflect changes in the level of activity in the real estate market. As a result, the Company s employee base expands and contracts over time. In order to manage personnel costs more effectively throughout the real estate cycle, it uses temporary or part time employees where appropriate to staff operations so that it can respond promptly to changes in real estate activity. Before the impact of title company acquisitions, if any, the Company anticipates that in 2005 the Title Insurance segment s portion of total personnel costs will decrease as a percentage of total personnel costs as the Company continues to diversify its other businesses. The Company has been monitoring, and will continue to monitor, personnel levels in connection with changes in real estate transaction volumes. Depending on the rapidity of the change in real estate activity, the Company may be unable in the short run to match decreasing levels of title orders with staffing levels. As a result, in periods of declining activity, personnel costs as a percentage of revenue, may increase.

Title Insurance salaries and employee benefit costs increased by $50.3 million, or 6.4%, in 2004 from 2003. The increase in cost is due in large part to increased costs of $105.8 million related to the addition of personnel as the result of 2004 and 2003 acquisitions offset by reduced staffing in other operations due to reduced volume levels. Additionally, there was a net increase of $2.6 million in pension and postretirement benefit expenses. For additional information regarding the impact of the Company s pension plans on results of operations, see Note 12 to the accompanying Consolidated Financial Statements. Average Full Time Equivalent (FTE) counts were 10,144 in 2004 (including 1,195 associated with 2003 and 2004 acquisitions) versus 10,573 in 2003. The Company anticipates that these costs will decrease in 2005 as the result of the continuing impact of staff reductions related to anticipated reduced residential transaction volume levels as well as a reduction in pension expense associated with the cash balance plan of approximately $7.8 million due to the Company s restructuring of its retirement benefits.

Title Insurance salaries and employee benefit costs increased $142.8 million, or 22.2%, in 2003 over 2002 primarily related to compensation increases associated with the increase in business volumes and increased commission expense for internal sales personnel. The Company also had an increase in its pension expense of approximately $3.0 million. Average Full Time Equivalent (FTE) counts for the year totaled 10,573 in 2003 versus 8,621 in 2002. Additionally, the Company had increased costs of approximately $8.0 million related to acquisitions in 2003.

Lender Services Lender Services salaries and employee benefit costs increased $42.6 million, or 188.5% in 2004 due to acquisitions made in 2003 and early 2004. Lender services personnel costs tend to increase during periods of increased sales volume and decrease when sales volume is lower. This is the case because a significant amount of work is required to set up new accounts. Once accounts are established, monitoring and maintenance activities are less labor intensive. The Company anticipates slightly higher salaries and employee benefit costs in 2005 due to the acquisitions made in 2004.

Financial Services Financial services salaries and benefit costs increased in 2004 over 2003 and in 2003 over 2002 due to the Company s acquisition of Centennial Bank in December 2003.

Corporate and Other Corporate and Other salaries and employee benefit costs increased $17.0 million, or 34.3%, in 2004 over 2003. Approximately half of the increase, or $8.0 million, was related to acquisitions with the remainder due to increases at the corporate level due to continued infrastructure growth and the compliance with the Sarbanes-Oxley Act.

Corporate and Other salaries and benefit costs increased $3.5 million, or 7.6% in 2003 over 2002. The increase in salaries and benefit costs in 2003 over 2002 relate to an increase in employees at the Company s shared resources facility required due to growth in the Company s infrastructure, primarily in the information technology area, an increase in incentive compensation as a result of the Company s financial performance, as well as continued expansion of the Company s other services (an increase of $6.4 million), offset by the termination of the business of Primis, Inc., the Company s web-based provider of real estate services, of $11.3 million (see additional information under Exit and Termination Costs below).

The Company anticipates that its costs in this group of businesses will increase in 2005 as the result of acquisitions made in 2004.

Provision for Policy and Contract Claims

The Company reviews its claims experience quarterly, and in conjunction with its outside actuaries, evaluates the adequacy of its claims reserve. The Company considers factors such as historical timing of claims reported and historical timing of claims paid over the period in which policies are effective against actual experience by year of policy issue to determine the amount of claims liability required for each year for which policies are outstanding. The Company also considers the impact of current trends in marketplace activity, such as refinance activity, which may shorten the time period a policy is outstanding, bankruptcies, and individual large claims attributable to any particular period in determining the expected liability associated with each year. Throughout 2004 and during the latter portion of 2003, claims associated with policies issued by the Company between 2000 and 2002 appear to have a trend of being higher than the Company s historical trends which resulted in the Company increasing its reserves associated with those policy issue years. This has been mitigated somewhat by decreased claim activity in policies issued during the 1990s where claims made appear to be below historical rates, due in part, the Company believes, to refinance activity in recent years which has resulted in the Company reducing claims reserves. Since there is an extended time period for which the Company is liable, slight changes in current claims experience can result in a significant impact in the amount of liability required for potential Incurred But Not Reported (IBNR) claims. The Company, based on its review of the underlying claims data and trends therein, has provided for claims losses using approximately 5.5%, 5.8% and 4.2% of title insurance revenue for 2004, 2003 and 2002, respectively. The Company believes that it has reserved appropriately for all reported and IBNR claims at December 31, 2004 based on the results of the actuarial evaluation and evaluation of any known trends.

Write-off of Title Plants

In 2004 and 2003, the Company identified 17 and 21 title plants, respectively, with aggregate book values of $5.0 million and $4.9 million that will not continue to be used or maintained. The Company took charges to earnings in 2004 and 2003 to reflect the diminution in value associated with these plants. The Company anticipates that as the result of automation of property records by municipalities and courts, the Company will continue to record charges related to diminution of value of its title plants in future periods.

Exit and Termination Costs

The Company incurred exit and termination costs on a pre-tax basis of $6.5 million, $.3 million and $13.4 million in 2004, 2003 and 2002, respectively. See also Note 18 to the accompanying Consolidated Financial Statements.

In the first quarter of 2004, the Company announced plans to reduce its cost structure by at least $70.0 million on an annualized basis within existing operations. As a result of this initiative, the Company identified 61 offices that it would consolidate into other offices during 2004. The Company accrued $5.3 million for the facility downsizing costs of these offices in 2004 as well as $1.2 million in severance payments related to these office consolidations.

In 2003, the Company consolidated certain office space. The Company incurred charges of approximately $0.8 million in the fourth quarter of 2003 related to its decision to consolidate office space in two markets. This charge was offset by a reduction of $0.5 million related to the 2002 accrual.

On June 1, 2002, the Company entered into a joint venture agreement with The First American Corporation to combine its residential real estate valuation operations. Under the terms of the agreement, the Company contributed its former Primis residential appraisal production division to First American s eAppraiseIT subsidiary. In connection with the transaction, the Company exited the residential appraisal production business which had been unprofitable and recorded a charge of $13.4 million for exit, termination and other costs during 2002.

Amortization

Amortization expense increased by $17.7 million and $6.5 million, respectively, in 2004 and 2003 as compared to comparable periods in 2003 and 2002. This was the result of acquisitions by the Company in 2004 and 2003. During 2004, the Company acquired businesses which added $82.0 million to amortizable intangible assets. During 2003, the Company acquired businesses which added $159.4 million to amortizable intangible assets. The Company is amortizing the intangible assets acquired as part of these businesses over their estimated useful lives.

Interest Expense

Interest expense increased by $13.7 million and $0.7 million, respectively, in 2004 and 2003 as compared to the same periods in 2003 and 2002. The increase in 2004 included $7.2 million related to the Company s acquisition of Centennial in December 2003. The remainder of the increase in 2004 is related to the Company s issuance in November 2003 of $115.0 million of its 3.125% Senior Convertible Debentures due 2033 used to fund a portion of the acquisitions in 2003 and its issuance of $125.0 million of its 3.25% Senior Convertible Debentures due 2034 issued in May 2004 used in part to repay amounts borrowed to fund the Company s acquisition of Southland.

Similarly, the increase of $0.7 million in interest expense in 2003 over 2002 was primarily the result of the purchase of Centennial in December 2003 and the issuance of the above-described Convertible Debentures in November 2003. The Company anticipates that interest expense will exceed prior year levels in 2005 due to increased debt related to the 2004 Senior Convertible Debt issue and deposits at Centennial.

Premium Taxes

Insurers are generally not subject to state income or franchise taxes. They are, however, subject to a premium tax on certain operating revenues, depending on the state. Tax rates and the amounts that are subject to tax vary from state to state. Premium taxes as a percentage of total title insurance revenues remained relatively constant during the last three years. This percentage was 1.3%, 1.2% and 1.4% for 2004, 2003 and 2002, respectively.

General, Administrative and Other

A summary of general, administrative and other expenses is as follows:

	2004	%	2003	%	2002	%
			(Dollars in millions)			
Title Insurance	$ 428.7	75.8%	$ 400.3	82.8%	$ 331.5	86.5%
Lender Services	69.9	12.3%	23.3	4.8%	0.7	0.2%
Financial Services	1.8	0.3%	0.2	0.0%		
Corporate and Other	65.9	11.6%	60.2	12.4%	51.0	13.3%
Total	$ 566.3	100.0%	$ 484.0	100.0%	$ 383.2	100.0%

Title Insurance Title Insurance general and administrative expenses increased by $28.4 million or 7.1% in 2004 as compared to 2003. This increase is primarily related to legal settlements of $9.2 million and a $39.5 million increase related to acquisitions that occurred during early 2004 and 2003, partially offset by lower costs associated with lower business volumes.

Title Insurance general and administrative expenses increased by $68.8 million, or 20.8% in 2003 over 2002. The increase in 2003 over 2002 is primarily related to incremental costs associated with servicing increases in total order volume, particularly in the area of outsourced services, as well as costs associated with new acquisitions. Operating expenses during 2003 did not increase as rapidly as operating revenues resulting in an increase to operating income.

Lender Services Lender Services general and administrative expenses increased in 2004 over 2003 and in 2003 over 2002 primarily due to the purchase of LATF and LACS in 2003. The Company anticipates that these costs will increase somewhat in 2005 as the result of 2004 acquisitions.

Financial Services Financial Services general and administrative expenses increased by $1.6 million due to the acquisition of Centennial in November 2003. The Company anticipates that future increases to Financial Services general and administrative expenses will be limited in amount since future portfolio and business growth do not require additional administrative resources.

Corporate and Other Corporate and Other general and administrative expenses increased by $5.7 million or 9.5% in 2004 over 2003. The increase in these expenses is primarily related to the Company s acquisitions. Corporate and Other general and administrative expenses increased by $9.2 million, or 18.0%, in 2003 over 2002. The increase in these expenses in 2003 over 2002 is primarily related to the increased support particularly in the Information Technology area required to service the Company s increased national operations. The Company anticipates a continued year over year increase in Corporate and Other business expenses for 2005 due to the Company s 2004 acquisitions.

Operating Income

Title Insurance The Title Insurance segment reported pretax income of $306.5 million, $371.6 million and $300.6 million in 2004, 2003 and 2002, respectively. The Company s operating income in this segment was positively impacted by its growth through acquisitions during 2004 offset by increases in litigation, personnel and administrative costs. Personnel and administrative costs did not decrease as rapidly as transaction volumes decreased due both to the Company s inability to reduce headcount in proportion to volume changes and the acquisitions of agents throughout 2004 and during the latter portion of 2003. Additionally, the Title Insurance segment reported reduced income in 2004 from its investment portfolio due primarily to the liquidation of securities in the third quarter to fund in part the acquisition of LATF.

Lender Services The Lender Services segment had pretax income (loss) of $2.0 million, $(0.4) million and $(0.2) million in 2004, 2003 and 2002, respectively. Pretax income (loss) in this segment was impacted by the acquisitions made in the third and fourth quarters of 2003. The Company evaluates the results of the tax and flood business on the basis of pre-tax income before net revenue deferrals and amortization (PRBDA). The Company utilizes financial measures that exclude certain charges and non-recurring items. Adjusted operating revenues represent operating revenues adjusted for the impact of net revenue deferrals. PRBDA margin represents PRBDA divided by adjusted operating revenues. PRBDA, adjusted operating revenues and PRBDA margin as defined above may not be similar to other PRBDA measures of other companies, are not measurements under accounting principles accepted in the United States and should be considered in addition to, but not as a substitute for, the information contained in the Company s statement of operations. The Company believes that adjusted operating revenues, PRBDA and PRBDA margins provide useful information to investors because they are indicators of the strength and cash flow generating performance of those businesses where we have life of loan servicing requirements, and that have been burdened in the short run with amortization expense related to intangibles acquired with the businesses. While amortization expense is considered an operating expense under generally accepted accounting principles, these expenses represent the non-current allocation of intangible assets acquired in prior periods. Additionally, while deferred revenue represents a reduction of revenue and profits in the current period, these reductions represent a non-cash allocation of revenue to future periods for on-going monitoring of certain of the Company s flood and tax servicing products. Reconciliations of these financial measures to the Company s segment operating results is as follows:

	December 31	
	2004	2003
	(Dollars in millions)	
Operating revenues	$ 149.6	$ 49.0
Add net revenue deferrals	26.2	5.6
Adjusted operating revenues	175.8	54.6
Pre-tax earnings	2.0	(0.4)
Add net revenue deferrals	26.2	5.6
Add amortization expense	13.4	3.5
PRBDA	$ 41.6	$ 8.7
PRDBA to adjusted operating revenues margin	23.7%	15.9%

Financial Services The Financial Services segment reported a pretax income of $9.7 million and $0.7 million in 2004 and 2003, respectively. Pretax income was impacted by the purchase of Centennial in November 2003. The $1.3 million in 2004 pretax income over annualized 2003 pretax income is the result of increased loan portfolio over 2003 levels.

Income Taxes

The Company s effective income tax rate, which includes a provision for state income and franchise taxes for non-insurance subsidiaries, was 35.3%, 35.3% and 35.0% for 2004, 2003 and 2002, respectively. The differences in the effective tax rate were primarily due to changes in the ratio of permanent differences to income before taxes and state taxes related to the Company s non-insurance subsidiaries.

Net Income

The Company reported net income of $146.3 million or $8.01 per share on a diluted basis for 2004, compared to a net income of $192.1 million or $10.31 per share on a diluted basis for 2003 and a net income of $149.4 million or $8.04 per share on a diluted basis for 2002. All three years were affected by one-time write-offs of intangibles and capitalized software and exit and termination costs. Exclusive of these items, net income was $153.7 million or $8.42 per diluted share in 2004, $195.5 million or $10.49 per diluted share in 2003 and $158.0 million or $8.51 per diluted share in 2002.

Liquidity and Capital Resources

Cash provided by operating activities for 2004, 2003 and 2002, respectively, was $256.6 million, $317.7 million and $236.4 million. The principal non-operating uses of cash and cash-equivalents for 2004, 2003 and 2002 were acquisitions, capital expenditures, additions to the investment portfolio and loans receivable, stock repurchases and the repayment of debt. The principal non-operating sources of cash were the Company s issuance in 2004 of its $125.0 million 3.25% Senior Convertible Debentures due 2034, the issuance in 2003 of the Company s $115.0

million 3.125% Convertible Senior Debentures due 2033 (together, the Convertible Debentures) and the proceeds from the sales and maturities of certain investments. The net of all activities was to increase cash by $20.1 million, $10.5 million and $6.8 million for 2004, 2003 and 2002, respectively. As of December 31, 2004, the Company held cash and short-term investments of $349.4 million and fixed-maturity securities of $1,113.3 million.

As noted above, the Company s operating results and cash flows are heavily dependent on the real estate market, particularly in the Title Insurance segment. While the Company has continued to diversify its products and services portfolio over the last several years, a significant downturn in the real estate market would adversely impact the Company s cash flows. The Company s business is labor intensive and changes to the real estate market are monitored closely and staffing levels are adjusted accordingly. There is typically a lag between changes in the real estate market and changes in personnel levels resulting in higher personnel costs in periods where the real estate market declines in advance of headcount reductions. The Lender Services segment provides real estate tax payment and flood certification services for the life of loans for which it receives cash at loan closing. This revenue related to the long-term servicing is deferred and amortized over the life of the loan. As a result, the Company s cash flows in the Lender Services segment are significantly greater than reported earnings. Revenues, cash receipts and loans in the Company s Financial Services segment are dependent on the ability of the bank to attract deposits and qualified commercial customers. The Company believes that its product diversification efforts along with its management of operating expenses and significant working capital position will aid its ability to manage cash resources through declines in the real estate market.

The Company does not match maturities of its investments with anticipated claims payments, which may result in the Company having periods in which cash flows from operations are positively or negatively impacted by the difference between the liability for claims being established and the actual payment stream. As opposed to insurance companies where claims account for a substantial portion of premiums, the Company s title insurance claims typically average approximately 5% to 6% of gross title insurance revenue. Additionally, the time period in which the Company is liable for a claim is long, with potential claims being paid over 20 years after a title policy is issued. Additionally, the Company makes provision for claims in its financial statements based on historical patterns of claims reported and paid and the timing of these may vary from period to period. Over the past several years, exclusive of the Company s operating cash flows, the Company s investment income returns plus maturities of fixed obligation securities have resulted in a maturity and investment income to claims payment ratio in excess of two times.

The Company considers its investment portfolio as available for sale. The Company reviews the status of each security quarterly to determine whether an other-than-temporary impairment (OTTI) has occurred. The Company s criteria include whether the fair value of the security is less than 80% of its amortized cost, the investment grade of the security and how long the security has been in an unrealized loss position. All of the Company s securities that have had an unrealized loss in excess of 1 year are investment-grade, long-term bonds that the Company has the ability and intent to hold to maturity. Consequently, the Company recorded no OTTI loss in 2004 or 2003.

During 2004, the Company completed acquisitions with an aggregate purchase price of approximately $202.1 million. The 2004 purchases were funded through a mixture of cash, invested cash, investments and utilization of the Company s credit facility. The Company will continue to selectively evaluate additional acquisitions should attractive candidates be identified.

In 2004 and 2003, the Company issued Convertible Senior Debentures totaling $125.0 million and $115.0 million, respectively. These Debentures are convertible only upon the occurrence of certain events, which the Company currently views as remote. In February 2005, the Company made an irrevocable election under the terms of its 2003 Debentures to satisfy in cash 100 percent of the principal amount of the 2003 Debentures converted after February 15, 2005. Prior to the election, the Company had the ability to make payment upon conversion for the principal amount of the 2003 Debentures in cash or shares of the Company s common stock.

The Company s debt, as a percentage of total capitalization, was 28.8% as of December 31, 2004 as compared to 23.9% as of December 31, 2003. This increase is due to the Company s issuance of the Convertible Debentures as well as debt acquired primarily from the acquisition of Centennial. See additional information related to the Company s debt obligations in Note 14 to the accompanying Consolidated Financial Statements.

The Company announced on October 27, 2004 amendments to the Company s employee retirement savings plans and adoption of a new employee stock purchase plan. The changes to the Company s employee retirement savings program included:

Amendments to the Company s Cash Balance Plan effective December 31, 2004 to cease future accruals to the retirement plan accounts of all plan participants (other than annual interest credits on account balances), to cause the accrued benefits of participants to be fully vested as of December 31, 2004 and to limit participation in the plan to those individuals who were participants in the Plan as of December 31, 2004. There were conforming changes to the Company s Benefit Restoration Plan.

Amendments to the Company s Savings and Stock Ownership Plan effective January 1, 2005 to comply with the safe harbor provisions of Sections 401(k)(12) and 401(m)(11) of the Internal Revenue Code of 1986, as amended. The amendment provided immediate vesting on all Company matching contributions made after January 1, 2005, removed the one-year waiting period for new participants to receive matching contributions and increased the matching contributions that the Company will make to employee accounts under the plan.

Adoption of a new Employee Stock Purchase Plan to be effective July 1, 2005, subject to shareholder approval. The plan will replace the Company s current employee stock purchase plan and will permit employees to purchase stock at a discount of 15% of the fair market value of the Company s common stock. The plan will initially authorize the purchase of 1,500,000 shares of the Company s Common Stock.

Based on these changes, the Company anticipates a reduction in company-wide pension expense of approximately $9.1 million in 2005. The Company anticipates a contribution of between $10.0 million and $20.0 million to this plan in 2005. Additionally, the Company anticipates that its contribution requirements after 2005 will decline.

The Board of Directors approved one-year authorization programs allocating $40.0 million for 2002 and 2003 and $50.0 million for 2004 to repurchase up to 1,250,000 shares or 7% of the Company s existing common stock over the following twelve months. During the first three quarters of 2004, the Company repurchased the entire 1,250,000 authorized shares for 2004. As a result, in December 2004, the Board of Directors approved a program expiring February 2006 which authorizes the Company to repurchase up to 1,000,000 additional shares at a cost not to exceed $60.0 million. Additionally, the Company maintains an Executive Voluntary Deferral Plan and an Outside Directors Deferral Plan. These plans allow executives and directors to defer eligible compensation into deferred stock units or a cash account bearing interest at a fixed rate of return. The Company funded the purchase of 59,336 shares of common stock related to these plans in 2004. The shares are held in a trust to be used for payments to participants under the plans. The trustee currently holds 204,957 shares at December 31, 2004. Further information on these plans can be found in Note 7 to the accompanying Consolidated Financial Statements.

Centennial maintains an allowance for loan losses related to the Company s loans receivable. During 2004, the Company did not experience a significant change in the underlying components of the allowance for loan losses or the balance in total. There have been no significant changes in the underlying rationale for management s provision for loan losses or significant changes in asset quality.

Off-Balance Sheet Arrangements and Contractual Obligations

The Company administers escrow and trust deposits as a service to its customers. These deposits totaled $2.8 billion and $2.0 billion at December 31, 2004 and 2003, respectively. Escrow and trust deposits are not considered assets of the Company and are not included in the accompanying balance sheets. However, the Company remains contingently liable for the disposition of these deposits. The Company has begun depositing a portion of these escrow and trust deposits in Centennial. Of the $2.8 billion in escrow, the Company has deposited $100.0 million in Centennial and those assets and liabilities have been reflected on the accompanying Consolidated Financial Statements.

Additionally, the Company facilitates tax-deferred property exchanges for customers pursuant to Section 1031 of the Internal Revenue Code. As a facilitator and intermediary, the Company holds the proceeds from sales transactions until a qualified acquisition occurs. These deposits totaled $1,399.7 million and $524.3 million at December 31, 2004 and 2003, respectively. Similarly, the Company also facilitates tax-deferred reverse exchanges pursuant to Revenue Procedure 2000-37. These exchanges require the Company, using the customer s funds, to acquire qualifying property on behalf of the customer and take temporary title to the customer s property until a qualifying acquisition occurs. Reverse property exchanges totaled $470.3 million and $183.7 million at December 31, 2004 and 2003, respectively. Due to the structure utilized to facilitate these transactions, like-kind exchanges and reverse exchanges are not considered assets of the Company and are not included in the accompanying consolidated balance sheets. However, the Company remains contingently liable for the transfers of property, disbursement of proceeds and the return on the proceeds at the agreed upon rate.

The Company, in the ordinary course of business, enters into business arrangements that fall within the scope of FIN No. 45, *Guarantors Accounting and Disclosure Requirements Including Guarantees of Indebtedness of Others,* and FIN No. 46, *Variable Interest Entities*, both of which the Company adopted in 2003. There were no arrangements in these categories that are reasonably likely to have a material impact on the Company s current or future operations, financial condition or results of operations. Required disclosures are in Notes 13 and 17 to the accompanying Consolidated Financial Statements.

A summary of the Company s contractual obligations and commercial commitments is as follows:

	Payment due by Period (In millions)				
Contractual Obligations	**Total**	**Less than 1 Year**	**1-3 years**	**3-5 Years**	**More than 5 Years**
Long-term debt obligations	$ 465.4	$ 16.3	$ 95.5	$ 61.1	$ 292.5
Operating lease obligations	181.0	61.1	80.8	33.6	5.5
Pension obligations [1]	285.6	29.9	50.6	54.0	151.1
Other postretirement benefits	42.5	4.3	8.3	8.4	21.5
Policy and contract claims [2]	102.3	32.2	46.3	16.5	7.3
Purchase obligations [3]	47.8	25.7	19.5	2.5	0.1
Total obligations	$ 1,124.6	$ 169.5	$ 301.0	$ 176.1	$ 478.0

(1) The Company has frozen benefits under its Cash Balance Pension Plan. The amounts included herein represent the Company s best estimate of required payments under the benefit plan.

(2) As noted previously, the Company estimates its provision for policy and contract claims in the Title Insurance business. Because the timing of a claim is subject to significant estimation and fluctuation, the Company has included only incurred and reported claims in the table for the Title Insurance segment. Homebuyers warranty claims reserves are included in total since the time from policy writing to claim does not exceed one year.

(3) The Company included all purchase obligations in excess of $100,000 in value irrespective of their termination dates. These include annually renewable corporate insurance programs, payments required under software licensing agreements, vehicle leasing arrangements, annual line of credit availability fees and fees to certain joint venture partners. Purchase obligations not exceeding $100,000 were not material to the Company, either individually or in the aggregate.

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 and loans receivable, 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 millions)

	2005	2006	2007	2008	2009	2010 and after	Total	Fair Value
Assets:								
Taxable available-for-sale securities:								
Book value	$ 47.4	$ 57.9	$ 59.0	$ 58.7	$ 74.3	$ 357.7	$ 655.0	$ 672.9
Average yield	5.3%	4.6%	4.3%	4.4%	5.0%	5.2%	4.9%	
Non-taxable available-for-sale securities:								
Book value	16.4	13.6	11.5	29.1	20.5	322.7	413.8	433.4
Average yield	4.1%	4.1%	4.3%	4.3%	4.0%	4.4%	4.3%	
Preferred stock:								
Book value						7.0	7.0	7.0
Average yield								
Loans receivable, excluding reserves, discounts and other cost:								
Book value	5.9	2.5	1.9	2.0	5.6	330.4	348.3	344.6
Average yield	7.7%	10.4%	9.6%	6.5%	7.1%	6.2%	6.6%	

Average yields for 2003 were 5.0%, 4.4% and 2.0% for taxable available for sale securities, non-taxable available for sale securities and preferred stock, respectively. Changes in maturities and yields from 2003 to 2004 primarily relate to timing of purchases and sales of any such securities and the impact that the securities sold or purchased have on the average portfolio yield.

The Company also has long-term debt of $465.4 million bearing interest at an average rate of 4.65% at December 31, 2004. Additionally, the Company has passbook and certificate of deposit liabilities of $373.1 million bearing interest at an average rate of 2.17% at December 31, 2004. A 0.25% change in the interest rate for these items combined would affect income before income taxes by approximately $2.1 million annually. The Company s debt portfolio is primarily fixed rate obligations and not subject to variability. The Company s deposit liabilities are subject to change based on short-term United States interest rates and availability of funds.

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 of 1933 and Section 21E of the Securities Exchange Act of 1934. Among other things, these statements relate to the financial condition, results of operation and future business plans, operations, opportunities and prospects 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 the use of words such as we expect, believe, anticipate, estimate or words of similar import. These forward-looking statements are based upon management s current knowledge and assumptions about future events and involve risks and uncertainties that could cause the Company s actual results, performance or achievements to be materially different from any anticipated results, performance or achievements expressed or implied by such forward-looking statements. Further, any such statement is specifically qualified in its entirety by the cautionary statements set forth in the following paragraphs. Factors that may cause the Company s actual results to differ materially from those contemplated by such forward-looking statements include the following:

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

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

The Company s operating revenues for the year ended December 31, 2003 increased by 32.0% over the prior year, primarily due to a favorable residential mortgage interest rate environment and a large volume of mortgage refinancing transactions. However, except during brief periods in 2004, mortgage interest rates generally have risen, beginning in the third quarter of 2003, and the Company has experienced a decline in refinancing transactions since that time. For fiscal year 2005, the Company expects that the level of refinancing transactions will be substantially below the levels experienced in recent years. The Company began the implementation of a cost reduction program in the fourth quarter of 2003 aimed at reducing staffing and cost levels to a level more consistent with anticipated transaction volumes. In the first quarter of 2004, the Company announced plans to reduce its cost structure by at least $70 million on an annualized basis. The Company has implemented reductions to achieve at least the targeted cost savings. Operating results for the Company s 2003 and 2004 fiscal years, including interim periods, should not be viewed as indicative of results for 2005 or any future period.

The Company s inability to manage successfully its acquisitions of complementary businesses could adversely affect the Company s business, operating results and financial condition.

An element of the Company s business strategy is to expand the services it provides through acquisitions of complementary businesses. During 2003 and 2004, the Company acquired several companies outside of its traditional business operations, including LATF, LACS, Centennial, BHW and LoanCare, previously described above. The businesses of LATF, LACS, Centennial and LoanCare are different from each other and from the business of providing title insurance and related services. The Company also may in the future acquire other businesses outside of its traditional business operations, although no assurances can be given that the Company will do so or that it will continue to acquire such companies at the levels previously experienced. Such acquisitions involve a number of special risks, including the Company s inexperience in managing businesses that provide products and services beyond its traditional business, new regulatory requirements, diversion of management s attention, failure to retain key acquired personnel, failure to effectively integrate operations, company cultures and services, increased costs to improve managerial, operational, financial and administrative systems, legal liabilities, and amortization of acquired intangible assets. In addition, there can be no assurance that acquired businesses will achieve anticipated levels of revenues, earnings or performance. The failure of the Company to manage its acquisitions successfully could materially and adversely affect the Company s business, operating results and financial condition.

Competition in the Company s industry affects its revenues.

The business of providing real estate transaction products and services is very competitive. Competition for residential title insurance business is based primarily on price and quality of service. With respect to national and regional mortgage lenders, service quality includes a large distribution network and the ability to deliver a broad array of real estate services quickly, efficiently and through a single point of contact. Competition for commercial title business is based primarily on price, service, expertise in complex transactions and the size and financial strength of the insurer. Title insurance underwriters also compete for agents on the basis of service and commission levels. Although the Company is one of the largest providers of real estate transaction products and services in the United States, four other companies Fidelity National Financial, Inc., The First American Corporation, Old Republic International Corporation and Stewart Information Services, Inc. have the size, capital base and agency networks to compete effectively with the Company s products and services. In addition, some of the Company s competitors may have, or will have in the future, greater capital and other resources than the Company. Competition among the major providers of real estate transaction products and services and any new entrants could adversely affect the Company s revenues and profitability.

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

As a national provider of real estate transaction products and services, the Company participates in an industry that is subject to significant change, frequent new product and service introductions and evolving industry standards. In addition, alternatives to traditional title insurance, such as lien protection products, have emerged in recent years. The Company believes that its future success will depend on its ability to anticipate changes in technology and customer preferences and to offer products and services that meet evolving standards on a timely and cost-effective basis. The development and implementation of new products and services may require significant capital expenditures and other resources. There is a risk that customers may not accept the Company s new product and service offerings and the Company may not successfully identify new product and service opportunities nor develop and introduce new products and services in a timely and cost-effective manner. In addition, products and services that the Company s competitors and other real estate industry participants develop or introduce may render certain of the Company s products and services obsolete or noncompetitive. Advances in technology could also reduce the useful lives of the Company s products, preventing the Company from recovering fully its investment in particular products and services. As a result, the inability of the Company to anticipate industry changes and to respond with competitive and profitable products and services may have a material adverse effect on the Company s business, operating results or financial condition.

The Company may not succeed in implementing its strategy of becoming a major provider of real estate transaction management services.

One of the Company s business strategies is to expand its capabilities to manage the delivery of multiple services required in real estate transactions through a centralized source, and to significantly grow the volume of transactions that it manages. There is a risk that the Company s transaction management services may fail to gain market acceptance, particularly from the large national mortgage originators. Furthermore, there are relatively low barriers to entry into the market for real estate transaction management, as opposed to the regulated title insurance business, which may result in a large number of competitors, including large national mortgage originators and others having substantially greater financial resources.

The Company s insurance and banking subsidiaries are subject to government regulation.

The Company s insurance subsidiaries are subject to regulation by the state insurance authorities of the various states in which they transact business. These regulations are generally intended for the protection of policyholders rather than security holders. The nature and extent of these regulations vary from jurisdiction to jurisdiction, but typically involve:

- regulation of dividend payments and other transactions between affiliates;
- prior approval of the acquisition and control of an insurance company or of any company controlling an insurance company;
- regulation of certain transactions entered into by an insurance company with any of its affiliates;
- approval of premium rates for insurance;
- standards of solvency and minimum amounts of capital surplus that must be maintained;
- limitations on types and amounts of investments;
- restrictions on the size of risks that may be insured by a single company;

licensing of insurers and agents;

deposits of securities for the benefit of policyholders;

approval of policy forms;

methods of accounting;

establishing reserves for losses and loss adjustment expenses;

regulation of underwriting and marketing practices;

regulation of reinsurance; and

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

These regulations may impede, or impose burdensome conditions on, rate increases or other actions that the Company might want to take to enhance its operating results. In addition, state regulatory examiners perform periodic examinations of insurance companies. The Company is and has in the past been subject to information requests and subpoenas from the states relating to investigations of the business practices of the Company and the title industry. Multiple states are specifically investigating captive reinsurance. Any restrictions imposed or actions taken by states with respect to the Company or the title insurance industry in general arising out of such information requests or subpoenas may adversely affect the Company s business, financial position or results of operations.

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

The Company s litigation risks include substantial claims by large classes of claimants.

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

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 registered public accounting firm and no disagreements on accounting and financial disclosure that are required to be reported hereunder.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures The Company maintains disclosure controls and procedures that are designed to provide assurance that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods required by the Securities and Exchange Commission. An evaluation of the effectiveness of the design and operation of the Company s disclosure controls and procedures as of the end of the period covered by this report was carried out under the supervision and with the participation of management, including the Company s Chief Executive Officer and Chief Financial Officer. Based on such evaluation, the aforementioned officers concluded that the Company s disclosure controls and procedures were effective as of the end of such period.

Management s Report on Internal Control over Financial Reporting Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. The Company s internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of the Company s financial reporting and the preparation of published financial statements in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2004. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control Integrated Framework*. Based on our assessment, we believe that as of December 31, 2004, the Company s internal control over financial reporting was effective based on criteria set forth by COSO in *Internal Control Integrated Framework.*

Management s assessment of the effectiveness of internal control over financial reporting as of December 31, 2004, has been audited by Ernst & Young LLP, the independent registered public accounting firm who also audited the Company s consolidated financial statements. Ernst & Young s attestation report on management s assessment of the Company s internal control over financial reporting appears on page F-1 hereof.

Changes in Internal Controls There was no change in the Company s internal control over financial reporting that occurred during the quarter ended December 31, 2004 that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Except as to certain information regarding executive officers included in Part I and the matters set forth below, the information required by this item is incorporated herein by reference to the Company s definitive proxy statement for the 2005 Annual Meeting of Shareholders to be filed within 120 days after the end of the last fiscal year.

The Company has adopted a Code of Ethics for Senior Financial Officers that applies to the Company s principal executive officer, principal financial officer and controller and contains provisions relating to honest and ethical conduct (including the handling of conflicts of interest between personal and professional relationships), the preparation of full, fair, accurate and timely disclosure in reports and documents filed with the Securities and Exchange Commission and in other public communications made by the Company, compliance with governmental laws, rules and regulations and other matters. A copy of the Code of Ethics for Senior Financial Officers is available through the Corporate Governance section of the Company s internet website at www.landam.com. Any amendment to or waiver from a provision of the Code of Ethics will be promptly disclosed on the Company s website.

ITEM 11. EXECUTIVE COMPENSATION

Except for certain information set forth under the captions Report of Executive Compensation Committee and Stock Performance Graph, the information required by this item is incorporated herein by reference to the Company s definitive proxy statement for the 2005 Annual Meeting of Shareholders to be filed within 120 days after the end of the last fiscal year.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item is incorporated herein by reference to the Company s definitive proxy statement for the 2005 Annual Meeting of Shareholders to be filed within 120 days after the end of the last fiscal year.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is incorporated herein by reference to the Company s definitive proxy statement for the 2005 Annual Meeting of Shareholders to be filed within 120 days after the end of the last fiscal year.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated herein by reference to the Company s definitive proxy statement for the 2005 Annual Meeting of Shareholders to be filed within 120 days after the end of the last fiscal year.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) (1), (2) and (3). The response to this portion of Item 15 is submitted as a separate section of this report.

(b) Exhibits - The response to this portion of Item 15 is submitted as a separate section of this report.

(c) Financial Statement Schedules - The response to this portion of Item 15 is submitted as a separate section of this report.

SIGNATURES

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

LANDAMERICA FINANCIAL GROUP, INC.

By: /s/ Theodore L. Chandler, Jr.
Theodore L. Chandler, Jr.
President and Chief Executive Officer

March 9, 2005

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. Charles H. Foster, Jr.	Chairman, and Director	March 9, 2005
/s/ Theodore L. Chandler, Jr. Theodore L. Chandler, Jr.	President, Chief Executive Officer and Director (Principal Executive Officer)	March 9, 2005
/s/ G. William Evans G. William Evans	Chief Financial Officer (Principal Financial Officer)	March 9, 2005
/s/ Christine R. Vlahcevic Christine R. Vlahcevic	Senior Vice President - Corporate Controller (Principal Accounting Officer)	March 9, 2005
/s/ Janet A. Alpert Janet A. Alpert	Director	March 9, 2005

Signature	Title	Date
/s/ Michael Dinkins Michael Dinkins	Director	March 9, 2005
/s/ John P. McCann John P. McCann	Director	March 9, 2005
/s/ Robert F. Norfleet, Jr. Robert F. Norfleet, Jr.	Director	March 9, 2005
/s/ Robert T. Skunda Robert T. Skunda	Director	March 9, 2005
/s/ Julious P. Smith, Jr. Julious P. Smith, Jr.	Director	March 9, 2005
/s/ Thomas G. Snead, Jr. Thomas G. Snead, Jr.	Director	March 9, 2005
/s/ Eugene P. Trani Eugene P. Trani	Director	March 9, 2005
/s/ Marshall B. Wishnack Marshall B. Wishnack	Director	March 9, 2005

ANNUAL REPORT ON FORM 10-K

ITEM 8, ITEMS 15 (a)(1), (2) AND (3), (b) AND (c)

INDEX OF FINANCIAL STATEMENTS AND

FINANCIAL STATEMENT SCHEDULES

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

FINANCIAL STATEMENT SCHEDULES

CERTAIN EXHIBITS

YEAR ENDED DECEMBER 31, 2004

LANDAMERICA FINANCIAL GROUP, INC.

RICHMOND, VIRGINIA

FORM 10-K ITEM 15 (a)(1), (2) AND (3)

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES

INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

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

The following consolidated financial statement schedules of LandAmerica Financial Group, Inc. and subsidiaries are included in Item 15(c):

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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, 2004 and 2003, 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, 2004. Our audits also included the financial statement schedules listed in the Index at Item 15(c). 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 the auditing 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 consolidated financial position of LandAmerica Financial Group, Inc. and subsidiaries at December 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, 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 explained in Note 1 to the financial statements, in 2002 the Company changed its method of accounting for goodwill and intangible assets.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of LandAmerica Financial Group Inc. s internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 9, 2005 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Richmond, Virginia

March 9, 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON

INTERNAL CONTROL OVER FINANCIAL REPORTING

The Board of Directors and Shareholders

LandAmerica Financial Group, Inc.

We have audited management s assessment, included in the accompanying Management s Report on Internal Control Over Financial Reporting, that LandAmerica Financial Group, Inc. maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). LandAmerica Financial Group s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the company s internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management s assessment that LandAmerica Financial Group, Inc. maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, LandAmerica Financial Group, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on the COSO criteria**.**

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of LandAmerica Financial Group, Inc. as of December 31, 2004 and 2003, 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, 2004 of LandAmerica Financial Group, Inc. and our report dated March 9, 2005 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Richmond, Virginia

March 9, 2005

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS, DECEMBER 31

(In millions)

ASSETS	**2004**	**2003**
INVESTMENTS:		
Fixed maturities available-for-sale - at fair value (amortized cost: 2004 $1,075.8; 2003 $997.2)	$ 1,113.3	$ 1,043.8
Equity securities - at fair value (cost: 2004 $31.4; 2003 $26.2)	42.1	33.5
Federal funds sold	4.5	0.5
Short term investments	276.4	177.8
Total Investments	1,436.3	1,255.6
CASH	73.0	52.9
LOANS RECEIVABLE	344.6	260.5
ACCRUED INTEREST RECEIVABLE	16.4	14.8
NOTES AND ACCOUNTS RECEIVABLE		
Notes (less allowance for doubtful accounts: 2004 $4.1; 2003 $3.8)	16.5	13.6
Trade accounts receivable (less allowance for doubtful accounts: 2004 $8.2; 2003 $12.7)	111.3	92.6
Total Notes and Accounts Receivable	127.8	106.2
TAXES RECEIVABLE	12.2	6.1
PROPERTY AND EQUIPMENT - at cost (less accumulated depreciation and amortization: 2004 $202.7; 2003 $171.9)	106.1	99.6
TITLE PLANTS	93.9	99.5
GOODWILL	568.5	426.7
INTANGIBLE ASSETS (less accumulated amortization 2004 - $32.5; 2003 $7.9)	213.0	156.7
DEFERRED INCOME TAXES	149.5	134.2
OTHER ASSETS	148.7	108.8
Total Assets	$ 3,290.0	$ 2,721.6

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS, DECEMBER 31

(Dollars in millions, except for share amounts)

LIABILITIES	**2004**	**2003**
POLICY AND CONTRACT CLAIMS	$ 715.5	$ 659.6
DEPOSITS	373.1	204.0
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	329.1	276.9
NOTES PAYABLE	465.4	327.4
DEFERRED SERVICE ARRANGEMENTS	202.4	163.5
OTHER	53.4	45.7
Total Liabilities	2,138.9	1,677.1
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS EQUITY		
Common stock, no par value, 45,000,000 shares authorized, shares issued and outstanding: 2004 17,962,527; 2003 18,814,522	491.5	520.9
Accumulated other comprehensive loss	(17.6)	(16.5)
Retained earnings	677.2	540.1
Total Shareholders Equity	1,151.1	1,044.5
Total Liabilities and Shareholders Equity	$ 3,290.0	$ 2,721.6

See Notes to Consolidated Financial Statements.

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

YEARS ENDED DECEMBER 31

(Dollars in millions, except per common share amounts)

	2004	2003	2002
REVENUES			
Operating revenues	$ 3,444.5	$ 3,345.4	$ 2,533.6
Net investment and other income	71.8	52.1	51.7
Net realized investment gains	5.8	8.5	1.3
	3,522.1	3,406.0	2,586.6
EXPENSES			
Agents commissions	1,471.8	1,511.6	1,116.2
Salaries and employee benefits	971.0	859.1	691.3
General, administrative and other	566.3	484.0	383.2
Provision for policy and contract claims	181.4	188.6	105.8
Premium taxes	42.6	40.6	34.1
Interest expense	26.8	13.1	12.4
Amortization of intangibles	24.6	6.9	0.4
Write-off of title plants	5.0	4.9	
Exit and termination costs	6.5	0.3	13.4
	3,296.0	3,109.1	2,356.8
INCOME BEFORE INCOME TAXES	226.1	296.9	229.8
INCOME TAX EXPENSE	79.8	104.8	80.4
NET INCOME	$ 146.3	$ 192.1	$ 149.4
NET INCOME PER COMMON SHARE	$ 8.07	$ 10.43	$ 8.10
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (In thousands)	18,132	18,422	18,438
NET INCOME PER COMMON SHARE ASSUMING DILUTION	$ 8.01	$ 10.31	$ 8.04
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING ASSUMING DILUTION (In thousands)	18,264	18,636	18,580

See Notes to Consolidated Financial Statements.

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31

(In millions)

	2004	2003	2002
Cash flows from operating activities:			
Net income	$ 146.3	$ 192.1	$ 149.4
Depreciation and amortization	50.5	25.9	17.8
Amortization of bond premium	7.1	5.7	4.1
Write-off of title plants	5.0	4.9	
Net realized investment gains	(5.8)	(8.5)	(1.3)
Deferred income tax (benefit) expense	(16.1)	0.1	25.8
Change in assets and liabilities, net of businesses acquired:			
Accounts and notes receivable	(10.7)	22.4	(10.5)
Income taxes receivable/payable	(8.8)	(20.2)	13.9
Accounts payable and accrued expenses	(6.8)	(5.1)	15.8
Policy and contract claims	55.1	84.5	13.0
Deferred service arrangements	27.7	4.6	1.0
Other	13.1	11.3	7.4
Net cash provided by operating activities	256.6	317.7	236.4
Cash flows from investing activities:			
Purchase of property and equipment, net	(31.0)	(33.6)	(15.8)
Purchase of business, net of cash acquired	(168.4)	(363.6)	(13.2)
Investments in unconsolidated subsidiaries	(19.8)	(8.8)	(8.3)
Change in cash surrender value of life insurance	(3.3)	(2.9)	1.6
Change in short term investments	(81.5)	61.2	(50.3)
Cost of investments acquired:			
Fixed maturities	(463.7)	(588.0)	(523.2)
Equity securities	(16.6)	(11.0)	(24.6)
Proceeds from investment sales or maturities:			
Fixed maturities	375.4	551.2	447.1
Equity securities	15.7	9.0	1.2
Net change in federal funds sold	(4.0)	9.4	
Change in loans receivable	(82.5)	(11.2)	0.3
Net cash used in investing activities	(479.7)	(388.3)	(185.2)
Cash flows from financing activities:			
Net change in deposits	169.2	(4.5)	
Proceeds from the exercise of options and incentive plans	14.1	14.1	4.0
Sale of stock warrants	22.5		
Purchase of call options	(32.0)		
Cost of common shares repurchased	(49.3)	(2.7)	(16.3)
Repayment of CSV loan			(7.0)
Dividends paid	(9.2)	(6.3)	(4.4)

Proceeds from issuance of notes payable	150.1	119.1	1.6
Payments on notes payable	(22.2)	(38.6)	(22.3)
Net cash provided by (used in) financing activities	243.2	81.1	(44.4)
Net increase in cash	20.1	10.5	6.8
Cash at beginning of year	52.9	42.4	35.6
Cash at end of year	$ 73.0	$ 52.9	$ 42.4

See Notes to Consolidated Financial Statements.

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

(Dollars in millions, except per common share amounts)

	Common Stock		Accumulated Other Comprehensive Income	Retained	Total Shareholders
	Shares	Amounts	(Loss)	Earnings	Equity
BALANCE December 31, 2001	18,583,937	$ 521.8	$ (3.6)	$ 209.3	$ 727.5
Comprehensive income:					
Net income				149.4	149.4
Other comprehensive income (loss)					
Net unrealized gains on securities, net of tax $16.0			29.7		29.7
Minimum pension liability adjustment, net of tax benefit $(15.0)			(26.3)		(26.3)
					152.8
Common stock retired	(507,150)	(16.3)			(16.3)
Stock options and incentive plans	272,157	4.0			4.0
Common dividends ($0.24/share)				(4.4)	(4.4)
BALANCE December 31, 2002	18,348,944	509.5	(0.2)	354.3	863.6
Comprehensive income:					
Net income				192.1	192.1
Other comprehensive loss					
Net unrealized loss on securities, net of tax benefit $(0.3)			(0.5)		(0.5)
Minimum pension liability adjustment, net of tax benefit $(9.0)			(15.8)		(15.8)
					175.8
Common stock retired	(62,000)	(2.7)			(2.7)
Stock options and incentive plans	527,578	14.1			14.1
Common dividends ($0.34/share)				(6.3)	(6.3)
BALANCE December 31, 2003	18,814,522	520.9	(16.5)	540.1	1,044.5
Comprehensive income:					
Net income				146.3	146.3
Other comprehensive loss					
Net unrealized loss on securities, net of tax benefit $(2.1)			(3.6)		(3.6)
Minimum pension liability adjustment, net of tax $1.4			2.5		2.5
					145.2
Purchase of call options, net of tax benefit $(11.2)		(20.8)			(20.8)
Sale of common stock warrants		22.5			22.5

Common stock retired	(1,250,000)	(49.3)			(49.3)
Stock options and incentive plans	398,005	18.2			18.2
Common dividends ($0.50/share)				(9.2)	(9.2)
BALANCE December 31, 2004	17,962,527	$ 491.5	$ (17.6)	$ 677.2	$ 1,151.1

See Notes to Consolidated Financial Statements.

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

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 its 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 primarily from resales and refinancings of residential real estate and to a lesser extent, from commercial transactions and the sale of new housing.

The Company, through its subsidiaries, is one of the largest title insurance companies in the United States. The Company s principal title insurance underwriters Commonwealth Land Title Insurance Company, Lawyers Title Insurance Corporation and Transaction Title Insurance Company together provide the majority of the Company s insurance products in the United States, Mexico, Canada, Europe, the Caribbean and Latin America. The Company also provides escrow and closing services, commercial real estate services and other real estate management services that are included in the Title Insurance segment.

Additionally, the Company provides other real estate transaction products and services including tax processing and flood zone certifications, default management services, mortgage loan subservicing and mortgage credit reporting to lenders. These businesses are included in the Lender Services segment.

The Company operates a California industrial bank which makes up the Financial Services segment.

The Company also provides inspection services on commercial and residential real estate, provides home warranties to buyers of residential real estate as well as commercial appraisal and valuation services. These services, along with the unallocated portion of the corporate expenses related to the Company s corporate offices in Richmond, Virginia (including unallocated interest expense) have been included in the Corporate and Other segment.

See Note 20 for additional information regarding the Company s business segments.

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 the Company and its subsidiaries. The Company s investments in non-majority owned partnerships and affiliates that are not variable interest entities are accounted for on the equity method. The Company also consolidates any variable interest entity of which it is the primary beneficiary in accordance with Financial Accounting Standards Board Interpretation Number (FIN) 46, *Variable Interest Entities.*

Reclassification

Certain 2003 and 2002 amounts have been reclassified to conform to the 2004 presentation.

Investments

The Company records its fixed-maturity and equity security 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.

Realized gains and losses on sales of investments as well as declines in value of a security considered to be other than temporary are recognized in operations on the specific identification basis.

The high investment grade mortgage-backed bond portion of the fixed-maturity securities portfolio is accounted for on the retrospective method. For the non-investment grade mortgage-backed bond portion of the fixed maturity securities portfolio, the prospective method is used.

Loans Receivable

Loans receivable are carried at face value net of participations sold, unearned discounts and deferred loan fees and an allowance for losses. Interest is accrued daily on a simple-interest basis, except where reasonable doubt exists as to the collectibility of the interest,

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

in which case the accrual of interest is discontinued. Unearned discounts and deferred loan fees are recognized using the interest method.

In accordance with Statement of Financial Accounting Standards (SFAS) No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*, certain origination fees and direct costs associated with lending are capitalized and amortized over the respective lives of the loans receivable as a yield adjustment using the interest method.

Loans Receivable Allowance

The allowance for loans receivable losses is established through a provision for loan losses. A loan is charged off against the allowance for loan losses when the Company believes that collectibility of the principal is unlikely. The allowance is an amount that management believes is adequate to absorb estimable and probable losses on existing loans and contracts. The Company takes into consideration changes in the nature and volume of its portfolio, overall portfolio quality, prior loss experience, review of specific problem loans and contracts, regulatory guidelines and current economic conditions that may affect the borrower s ability to pay. Additionally, certain regulatory agencies, as part of their examination process, periodically review the Company s allowance for loan losses. These agencies may require adjustments to the allowance based on their judgment regarding information made available to them.

Loans receivable are impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans receivable are generally measured at the present value of expected cash flows discounted at the loan s effective interest rate. In the case of collateral-dependent loans, impairment is based on the fair value of the collateral.

Accounts Receivable

Accounts receivable are carried at face value which approximates fair value. The allowance for doubtful accounts receivable represents an estimate of amounts considered uncollectible and is determined based on management s evaluation of historical collection experience, adverse situations which may affect an individual customer s ability to repay as well as prevailing economic conditions.

Property and Equipment

Property and equipment, including capitalized software costs, is recorded at cost less accumulated depreciation and is depreciated principally on a straight-line basis over the useful lives of the various assets, which range from three to forty years. Leasehold improvements are depreciated on a straight-line basis over the lesser of the term of the applicable lease or the estimated useful lives of such assets. Capitalized software costs are capitalized from the time that technological feasibility is established until the software is ready for use.

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 or depreciated because there is no indication of diminution in their value.

Goodwill

Effective January 1, 2002, the Company adopted SFAS No. 142, *Goodwill and Other Intangibles,* which required that the Company discontinue amortizing goodwill and begin assessing the recoverability of goodwill for each of its reporting units. Reporting units are business components of an operating segment, and goodwill is assigned to the reporting unit which benefits from the synergies arising from each business acquisition.

The Company tests for the recoverability of goodwill annually on October 1, or sooner if events or changes in circumstances indicate that the carrying amount of our reporting units, including goodwill, may exceed their fair values. The fair value of the reporting units is determined using cash flow analysis which projects the future cash flows produced by the reporting units and discounts those cash flows to the present value. The projection of future cash flows is necessarily dependent upon assumptions on the future levels of income as well as business trends, prospects and market and economic conditions. When the fair value is less than the carrying value for the net assets of the reporting unit, including goodwill, impairment loss may be charged to operations. Based on the Company s annual analysis, no impairment was identified for the years ending December 31, 2004, 2003, and 2002. See further details in Note 18.

Intangible Assets

Intangible assets primarily include capitalized customer relationships. Additionally, intangibles include non-competition arrangements and debt offering costs. These assets were initially recognized and measured in accordance with SFAS No. 141, *Business Combinations*, at fair value. These assets are amortized on a straight-line basis over 3 to 20 years. Amortization expense for the next five years is anticipated to be $29.3 million - 2005, $28.4 million - 2006, $27.7 million - 2007, $26.5 million - 2008 and $24.5 million - 2009.

Impairment of Intangible Assets and Long-lived Assets

The Company tests intangible and long-lived assets for impairment whenever there are recognized events or changes in circumstances that could affect the carrying value of the long-lived assets. 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. In 2004 and 2003, the Company identified certain title plants that were abandoned or sold in their individual marketplaces. The Company took charges of $5.0

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

million and $4.9 million in 2004 and 2003, respectively, associated with these title plants to adjust the carrying value to appropriate levels. See Note 18 for additional information.

Policy and Contract Claims Liability

Liabilities for estimated losses and loss adjustment expenses represent the estimated ultimate net cost of all reported and unreported losses incurred for policies for which revenue has been recognized through December 31, 2004. Reported claims are reserved based on a review by the Company as to the estimated amount of the claims and costs required to settle the claim. The reserves for unpaid losses and loss adjustment expenses are estimated using historical loss and loss development analyses.

Title insurance reserve estimates are subject to a significant degree of inherent variability due to the length of time over which claim payments are made and 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 totaled approximately $2,823.0 million and $1,992.2 million at December 31, 2004 and 2003, respectively, representing undisbursed amounts received for settlements of mortgage loans, payments on mortgage loans and indemnities against specific title risks. At December 31, 2004, $100.0 million of the $2,823.0 million of escrow funds were held on deposit at Centennial. The remaining balance of $2,723.0 million in escrow funds are not considered assets of the Company and, therefore, are excluded from the accompanying consolidated balance sheets.

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

Title Insurance Premiums on title insurance policies issued by the Company are recognized as revenue when the Company is legally or contractually entitled to collect the premium. Revenues from title policies issued by the Company through independent agents are recognized when the policies are reported by the agent and are recorded on a gross basis (before the deduction of agent commissions). Title search and escrow fees are recorded as revenue when the order is closed.

Lender Services Revenue is recognized for property tax information services on a straight-line basis over the anticipated life of the loan. Flood zone certification services are recognized in part upon delivery of the flood zone certification with the remaining balance (based on the residual method using vendor specific evidence) recognized on a straight-line basis over the remaining life of the certificate. For these services, fees are received in advance for the entire period that a loan will be serviced. The amount not recognized as revenue in the financial statements in the period received is reported in the accompanying balance sheet as deferred service arrangements in accordance with Staff Accounting Bulletin No. 104, *Revenue Recognition in Financial Statement*s. The amortization period is evaluated quarterly to determine if there have been changes in the estimated life of the loan and/or changes in the number and/or timing of prepayments.

Revenue is recognized on other Lender Services products at the time of delivery, as the Company has no significant ongoing obligation after delivery.

Financial Services Interest income is recognized by the Company s California industrial bank on the outstanding principal balance using the accrual basis of accounting. Loan origination fees and related direct loan costs are deferred and recognized over the life of the loan. Loans are typically classified as non-accrual if the borrowers miss three or more contractual payments. Loans may be returned to accrual status when all principal and interest amounts contractually due (including arrearages) are reasonably assured of repayment within an acceptable period of time, in accordance with the contractual interest and principal payment terms of interest and principal.

While a loan is classified as non-accrual and future collectibility of the recorded loan balance is doubtful, collections of interest and principal are generally applied as a reduction to principal outstanding. When the future collectibility of the recorded loan balance is expected, interest may be recognized on a cash basis.

Corporate and Other Home warranty revenue is recognized on a straight-line basis over the term of the contract. Fees are received in advance for the entire period the contract is in force. The amount not recognized as revenue in the financial statements in the period received is reported in the accompanying balance sheet as deferred service arrangements.

Revenue is recognized on other products in this group of businesses at the time of delivery, as the Company has no significant ongoing obligations after delivery.

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Like Kind Exchanges

Through one of its non-insurance subsidiaries, the Company facilitates tax deferred 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, 2004 and 2003, the Company was holding $1,399.7 million and $524.3 million, respectively, of such proceeds which are not considered assets of the Company and are, therefore, excluded from the accompanying consolidated balance sheets. The Company also facilitates tax-deferred property exchanges for customers pursuant to Revenue Procedure 2002-37, so-called reverse exchanges. These reverse exchanges require the Company to take title to the customer s property until a qualifying acquisition occurs. Through these reverse exchanges the Company acquires property on behalf of customers using funds provided by the customers or from non-recourse loans arranged by the customer. The property is triple net leased to the customer and the customer fully indemnifies the Company against all risks associated with ownership of the property. The Company does not record these reverse exchanges which amounted to $470.3 million and $183.7 million at December 31, 2004 and 2003, respectively, on its financial statements.

Fair Values of Financial Instruments

The carrying amounts reported in the balance sheet for cash, short-term investments, premiums receivable and certain other assets approximate those assets fair values. Fair values for investment securities are based on quoted market prices. The fair value of the fixed-rate portion of the Company s long-term debt is estimated using discounted cash flow analyses, based on the Company s current incremental borrowing rates for similar types of borrowing arrangements. The remaining portion of the Company s long-term debt approximates fair value since the interest rate is variable. The fair value of loans receivable was estimated based on the discounted value of future cash flows using the current rates offered for loans with similar terms to borrowers of similar credit quality. The fair value of deposits was estimated based on the discounted value of future cash flows using a discount rate approximating current market for similar liabilities. The Company has no other material financial instruments. See Notes 3, 5 and 14 for additional information.

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A summary of the fair value of the Company s financial assets and liabilities is as follows:

	2004		2003	
	Fair Value	**Carrying Value**	**Fair Value**	**Carrying Value**
	(In millions)			
Investments	$ 1,436.3	$ 1,436.3	$ 1,255.6	$ 1,255.6
Loans receivable	345.3	344.6	263.1	260.5
Deposits	372.7	373.1	204.4	204.0
Long-term debt	423.1	465.4	317.3	327.4

Stock-Based Compensation

The Company has granted 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 Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25) otherwise known as the intrinsic value method, and accordingly, recognizes compensation expense as the excess, if any, of the quoted market price of the stock at the grant date over the amount an employee must pay to acquire the stock.

Pro forma information regarding net income and earnings per share 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 as of the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions for 2002: risk-free interest rate of 5.31 percent, dividend yield of .62 percent, volatility factor of the expected market price of the Company s Common Stock of .475 and a weighted-average expected life of the options of approximately eight years. There were no options issued in 2003 or 2004.

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following pro forma information shows the Company s net income and earnings per basic and diluted share if compensation expense for the Company s employee stock options had been determined based on the fair value method of accounting:

	2004	2003	2002
	(Dollars in millions, except per share amounts)		
Net income, as reported	$ 146.3	$ 192.1	$ 149.4
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(0.6)	(1.3)	(2.6)
Pro forma net income	$ 145.7	$ 190.8	$ 146.8
Earnings per share:			
Basic as reported	$ 8.07	$ 10.43	$ 8.10
Basic pro forma	$ 8.03	$ 10.36	$ 7.96
Diluted as reported	$ 8.01	$ 10.31	$ 8.04
Diluted pro forma	$ 7.94	$ 10.23	$ 7.96

In December 2004, the FASB issued SFAS No. 123R, *Share-Based Payment.* SFAS No. 123R is a revision of SFAS No. 123, *Accounting for Stock Based Compensation,* and supersedes APB 25. Among other items, SFAS 123R eliminates the use of APB 25 and the intrinsic value method of accounting, and requires companies to recognize the cost of employee services received in exchange for awards of equity instruments, based on the grant date fair value of those awards, in the financial statements. The effective date of SFAS 123R is the first reporting period beginning after June 15, 2005. Because the Company has not granted any stock options since 2002 and does not anticipate issuing options in 2005, the adoption of this statement is not expected to have a material impact on the results of operations.

Exit and Termination Costs

In January 2003, the Company adopted SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities,* which was effective for periods after December 31, 2002. The statement requires that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at its fair value in the period in which the liability is incurred. Previously, these liabilities were required to be accrued at the time management committed to an activity. Costs required to be accrued include but are not limited to termination benefits provided to employees that were involuntarily terminated, costs to terminate a contract that was not a capital lease, and costs to consolidate facilities or relocate employees. The impact of implementation of this standard was not material.

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

2. INVESTMENTS

The amortized cost and estimated fair value of investments in fixed maturities available for sale at December 31, 2004, and 2003 were as follows:

	2004			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In millions)			
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	$ 84.1	$ 1.8	$ (0.3)	$ 85.6
Obligations of states and political subdivisions	416.0	20.1	(0.6)	435.5
Fixed maturities issued by foreign governments	4.7	0.1		4.8
Public utilities	11.3	0.9		12.2
Corporate securities	419.0	14.7	(1.1)	432.6
Mortgage-backed securities	133.7	2.2	(0.3)	135.6
Preferred stock	7.0			7.0
Fixed maturities available-for-sale	$ 1,075.8	$ 39.8	$ (2.3)	$ 1,113.3

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

2. INVESTMENTS (Continued)

	2003			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In millions)			
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	$ 88.9	$ 3.1	$ (0.1)	$ 91.9
Obligations of states and political subdivisions	417.9	23.5	(0.3)	441.1
Fixed maturities issued by foreign governments	1.5			1.5
Public utilities	23.0	1.5		24.5
Corporate securities	344.3	17.7	(0.8)	361.2
Mortgage-backed securities	116.1	2.1	(0.2)	118.0
Preferred stock	5.5	0.1		5.6
Fixed maturities available-for-sale	$ 997.2	$ 48.0	$ (1.4)	$ 1,043.8

The amortized cost and estimated fair value of fixed-maturity securities at December 31, 2004, by contractual maturity for available for sale securities are shown below. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations.

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

2. INVESTMENTS (Continued)

	Amortized Cost	Estimated Fair Value
	(In millions)	
Due in one year or less	$ 63.8	$ 64.6
Due after one year through five years	371.0	382.0
Due after five years through ten years	355.9	375.1
Due after ten years	151.4	156.0
Mortgage-backed securities	133.7	135.6
	$ 1,075.8	$ 1,113.3

Realized and unrealized gains (losses) 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:

	2004	2003	2002
		(In millions)	
Net realized gains (losses):			
Fixed maturities	$ 1.6	$ 7.7	$ 1.4
Equity securities	4.2	0.8	(0.1)
	$ 5.8	$ 8.5	$ 1.3
Change in unrealized:			
Fixed maturities	$ (9.1)	$ (7.7)	$ 45.4
Equity securities	3.4	6.9	0.3
	$ (5.7)	$ (0.8)	$ 45.7

Gross unrealized gains and (losses) relating to investments in equity securities were $10.8 million and $(0.1) million at December 31, 2004.

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

2. INVESTMENTS (Continued)

A total of 480 securities had unrealized losses at December 31, 2004, and the duration of these securities range from one year to thirty years. All but 24 of the securities with unrealized losses were investment grade fixed maturity securities acquired by the Company during 2004, and accordingly, each security has been in an unrealized loss position for less than twelve months. The 24 securities with unrealized losses in excess of twelve months were investment grade long-term bonds and notes which management has the intent and the ability to hold to maturity and had an aggregate unrealized loss of $0.3 million.

Management has concluded that none of the available-for-sale securities with unrealized losses at December 31, 2004, has experienced an other-than temporary impairment. This conclusion was based on a number of factors including: (1) there were no securities with fair values less than 80 percent of amortized cost at December 31, 2004, (2) there were no securities rated below investment grade, and (3) there were no securities for which fair value had been significantly below amortized cost for a period of six months or longer.

The proceeds from sale of investments, net of calls or maturities and gross realized gains (losses) during the years ended December 31, 2004, 2003 and 2002 were as follows:

	2004	2003	2002
		(In millions)	
Fixed maturities:			
Proceeds	$ 333.7	$ 463.0	$ 339.2
Gross realized gains	3.2	8.7	5.7
Gross realized losses	(1.8)	(0.8)	(4.0)
Equity securities:			
Proceeds	$ 15.6	$ 9.0	$ 1.2
Gross realized gains	4.3	1.0	
Gross realized losses	(0.1)	(0.2)	(0.1)

At December 31, 2004, no industry group comprised more than 10 percent of our investment portfolio. This portfolio is widely diversified among various geographic regions in the United States, and is not dependent on the economic stability of one particular region.

At December 31, 2004, we did not hold any fixed maturity securities in any single issuer, other than securities issued or guaranteed by the U.S. government, which exceeded 10 percent of shareholders equity.

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

3. LOANS RECEIVABLE

Loans receivable at December 31, 2004, and December 31, 2003, are summarized as follows:

	2004	2003
	(In millions)	
Loans interest bearing	$ 346.8	$ 257.6
Conditional sales and other contracts	1.5	5.3
	348.3	262.9
Unearned income on loans	(0.5)	(0.7)
Allowance for loan losses	(4.1)	(3.3)
Deferred loan fees	0.9	1.6
	$ 344.6	$ 260.5

The average yield on the Company s loan portfolio was 6.76 percent for the year ended December 31, 2004. Average yields are affected by amortization of discounts on loans, prepayment penalties recorded as income, loan fees amortized to income and market interest rate changes.

The activity in the allowance for loan losses for the years ended December 31, 2004, and December 31, 2003, is as follows:

	2004	2003
	(In millions)	
Beginning of year	$ 3.3	$ 0.1
Add: Provision for loan losses	0.9	0.7
Balance acquired		2.5
Less: Charge-offs	(0.1)	
Balance at end of year	$ 4.1	$ 3.3

There were no investments in loans for which an impairment has been recognized. The amount of loans in non-accrual status was not material at December 31, 2004.

The allowance for loan losses is maintained at a level that is considered appropriate by management to provide for risks in the portfolio.

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

4. POLICY AND CONTRACT CLAIMS

Activity in the liability for unpaid claims and claim adjustment expenses is summarized as follows:

	2004	2003	2002
		(In millions)	
Balance at January 1	$ 659.6	$ 574.5	$ 561.5
Acquired	0.8		
Incured related to:			
Current year	213.7	147.3	136.5
Prior years	(32.3)	41.3	(30.7)
Total incurred	181.4	188.6	105.8
Paid related to:			
Current year	19.2	8.5	10.5
Prior years	107.1	95.0	82.3
Total paid	126.3	103.5	92.8
Balance at December 31	$ 715.5	$ 659.6	$ 574.5

The Company calculates the ultimate loss reserve for title insurance claims by analyzing the dollar amount of claims paid and reported each year accumulated by policy issue year in each subsequent year. The Company considers factors such as historical timing of claims reported and historical timing of claims paid over the period in which policies are effective against actual experience by year of policy issue to determine the amount of claims reserves required for each year for which policies are outstanding.

The Company s increase in 2004 estimated losses related primarily to several large claims for policy year 2004. Reserves for policy years 1999 and prior developed favorably in both 2004 and 2003. The adverse development on prior year loss reserves during 2003 was attributable to the emergence of a few large claims for policy years 2001 and 2002. The favorable development on loss reserves during 2002 was attributable to lower than expected payment levels on recent issue years which included a high proportion of refinance business. The Company will continue to evaluate its title insurance reserves quarterly and adjust its reserves when circumstances dictate that recent trends have moderated significantly.

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

5. DEPOSITS

Passbook and investment certificate accounts at December 31, 2004 and December 31, 2003 are summarized as follows:

	2004	2003
	(In millions)	
Passbook accounts	$ 176.1	$ 80.4
Certificate accounts:		
Less than one year	138.1	108.2
One to two years	25.3	10.7
Two to three years	3.8	2.0
Three to four years	2.7	0.8
Four to five years	27.1	1.9
	$ 373.1	$ 204.0
Annualized average interest rates:		
Passbook accounts	1.31%	2.03%
Certificate accounts	2.95%	2.79%

6. FACULTATIVE 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.

Due to statutory limitations, the Company is restricted to purchasing reinsurance from other title companies. Consequently, the Company purchases significantly all its title reinsurance from two other title companies. These title companies have an AM Best rating of A or better, indicating excellent or superior ability to meet their obligations.

The amount of paid and recovered reinsured losses during the three years ended December 31, 2004 is immaterial to operations. The total amount of premiums for assumed and ceded risks was less than 1 percent of title premiums in each of the last three years.

7. 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

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

7. SHAREHOLDERS EQUITY (Continued)

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 percent 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 percent.

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. 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. 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 Right. Following the acquisition by any person of more than the threshold percentage of the outstanding shares of the Company s Common Stock but less than 50 percent of such shares, the Company may exchange one share of Common Stock for each Right (other than Rights held by such person).

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 and Award Plans

As of December 31, 2004, the Company had three stock compensation plans which have been approved by the shareholders. Under the 2000 Stock Incentive Plan, as amended (the 2000 Plan), the Company may grant/award 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 Executive Compensation Committee of the Board of Directors. Grants or awards covering 1,509,480 shares of Common Stock were made pursuant to the 1991 and 1992 stock plans. All future grants of stock compensation will be granted through the 2000 Plan. As of December 31, 2004, the Company had made awards of 310,554 shares of restricted stock, 100 shares of Common Stock, grants of 58,602 shares of phantom stock designated as cash units and payable solely in cash; and grants covering 748,430 shares, each net of adjustments for forfeitures pursuant to the 2000 Plan. The maximum number of shares of Common Stock authorized for issuance under the 2000 Plan is

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

7. SHAREHOLDERS EQUITY (Continued)

3,600,000 subject to adjustment as described in the 2000 Plan. As of December 31, 2004, there were 2,482,314 shares available for future grant under the 2000 Plan.

Stock Options

All stock options have been granted with an exercise price equal to the fair market value of a share of Common Stock at the date of grant. All options granted to directors vest ratably over four years and expire ten years from the date of grant; all other options generally vest ratably over four years and expire seven years from the date of grant. The following schedule summarizes stock option activity for the three years ended December 2004:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Fair Value
Options outstanding, December 31, 2001 (421,145 exercisable)	1,493,901	$ 29	
Granted	16,000	32	$ 17.92
Exercised	151,757	19	
Forfeited	71,502	32	
Options outstanding, December 31, 2002 (616,630 exercisable)	1,286,642	$ 30	
Granted			
Exercised	358,398	29	
Forfeited	12,000	44	
Options outstanding, December 31, 2003 (532,738 exercisable)	916,244	$ 30	
Granted			
Exercised	380,031	30	
Forfeited	7,000	38	
Options outstanding, December 31, 2004 (408,213 exercisable)	529,213	$ 30	

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

7. SHAREHOLDERS EQUITY (Continued)

The following table summarizes information about stock options outstanding at December 31, 2004:

Range of Exercise Prices		Number Outstanding at 12/31/04	Weighted Average Remaining Life	Weighted Average Exercise Price	Number Exercisable at 12/31/04	Weighted Average Exercise Price
$14.31	$20.06	81,963	2.58	$ 18.59	81,963	$ 18.59
26.50	26.50	201,250	3.95	26.50	140,250	26.50
27.70	32.04	42,000	6.20	29.67	42,000	29.67
36.80	36.80	178,000	3.13	36.80	118,000	36.80
43.60	54.04	26,000	2.06	48.57	26,000	48.57
		529,213	3.55	$ 30.08	408,213	$ 29.62

Restricted Stock

Restricted stock and related cash units may be granted pursuant to the 2000 Plan and vest ratably over four years.

	2004		2003		2002	
	Restricted Stock	Cash Units	Restricted Stock	Cash Units	Restricted Stock	Cash Units
Outstanding grants at start of year	257,005	71,820	120,400			
New shares granted	26,168	13,158	169,180	71,820	120,400	
Shares forfeited	(5,194)	(1,480)				
Shares vested	(88,901)	(24,896)	(32,575)			
Outstanding grants at end of year	189,078	58,602	257,005	71,820	120,400	

Savings and Stock Ownership Plan

The Company has registered 3,100,000 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.

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

7. SHAREHOLDERS EQUITY (Continued)

Prior to July 1, 2002, the Company provided the Plan Trustee with funds to purchase shares on the open market to use in matching employee contributions. After that date, the Company has matched employee contributions in cash. The level of contributions to the Plan is discretionary and set by the Board of Directors annually. The total number of shares purchased and allocated to employees including both company match and employee contributions in 2004, 2003 and 2002 were 121,456, 107,547 and 184,656, respectively, at a cost of $5.4 million, $4.8 million and $5.5 million, respectively. Amounts charged to income by the Company for its matching contributions were $12.8 million, $11.9 million and $10.3 million for 2004, 2003 and 2002, respectively.

Effective January 1, 2005, the Company s Savings and Stock Ownership Plan was amended to comply with the safe harbor provisions of Sections 401(k)(12) and 401(m)(11) of the Internal Revenue Code of 1986, as amended. The amendment provides immediate vesting on all Company matching contributions made after January 1, 2005, removes the one-year waiting period for new participants to receive matching contributions and increases the matching contributions that the Company will make to employee accounts under the plan.

Deferral Plans

Pursuant to the Company s Executive Voluntary Deferral Plan and Outside Directors Deferral Plan, executives and directors can defer eligible compensation into deferred stock units or a cash account bearing interest at a fixed rate of return. Under the terms of the original plans, deferred stock units were settled by a cash payment to the plan participant. Effective April 24, 2002, the Company amended the deferral plans to provide for the settlement of deferred stock units in the Common Stock of the Company. Effective January 1, 2004, the Executive Voluntary Deferral Plan and the Outside Directors Deferral Plan were amended to provide a maximum of 800,000 and 100,000, respectively, of Common Stock that can be issued under the plans. A trust has been established to hold the shares of Common Stock to be used to fund payments to executives and directors. The Company provides the trustee of the Plans with the funds to purchase shares of Common Stock on the open market to match the number of deferred stock units credited to participants accounts under the deferral plans. The aggregate number of shares purchased by the trustee of the plans in 2004 was 59,336 at a cost of $2.7 million.

Convertible Debt

In November and December 2003, the Company issued $115.0 million of the Company s 3.125 percent Convertible Senior Debentures due 2033 (the 2003 debentures) through a private placement. The 2003 debentures are convertible into shares of the Company s Common Stock at the current conversion rate of 14.9478 shares per $1,000 principal amount of the debentures, which is equivalent to a conversion price of $66.90 per

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

7. SHAREHOLDERS EQUITY (Continued)

share of Common Stock. The conversion rate is subject to adjustment upon the occurrence of certain specified events. Upon conversion, the Company will deliver cash or Common Stock equal to the lesser of the aggregate principal amount of the 2003 debentures to be converted or the Company s total conversion obligation and cash or common stock in respect of the remainder, if any, of the Company s conversion obligation. The Company may redeem some or all of the 2003 debentures at any time on or after November 2010. The holders may also require the Company to repurchase the 2003 debentures for cash or Common Stock at five designated repurchase dates as defined in the indenture. Holders may convert the 2003 debentures into cash and shares, if any, of the Company s Common Stock prior to stated maturity, under the following circumstances: (1) during any calendar quarter (and only during such calendar quarter) commencing after December 31, 2003, and before December 31, 2028, if the last reported sale price of the Company s Common Stock is greater than or equal to 125 percent of the conversion price for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the preceding calendar quarter; (2) at any time on or after January 1, 2029, if the last reported sale price of the Company s Common Stock on any date on or after December 31, 2028, is greater than or equal to 125 percent of the conversion price; (3) subject to certain limitations, during the five business day period after any five consecutive trading day period in which the trading price per 2003 debenture for each day of that period was less than 98 percent of the product of the conversion rate and the last reported sale price of the Company s Common Stock; (4) if the Company calls the 2003 debentures for redemption; (5) upon the occurrence of certain corporate transactions; or (6) if the Company obtains credit ratings for the 2003 debentures, at any time when the credit ratings assigned to the 2003 debentures are below the specified levels in the indenture. At December 31, 2004 none of the 2003 debentures had been converted or redeemed.

In May 2004, the Company issued approximately $125.0 million principal amount of the Company s 3.25 percent Convertible Senior Debentures due 2034 (the 2004 debentures) through a private placement. The 2004 debentures are convertible into shares of the Company s Common Stock at current conversion rate of 18.4153 shares per $1,000 principal amount of the 2004 debentures, which is equivalent to a conversion price of approximately $54.30 per share of Common Stock. The conversion rate is subject to adjustment upon the occurrence of certain specified events. Upon conversion, the Company will deliver cash equal to the lesser of the aggregate principal amount of 2004 debentures to be converted and the Company s total conversion obligation and Common Stock in respect of the remainder, if any, of the Company s conversion obligation. Holders may convert the 2004 debentures into cash and shares, if any, of the Company s Common Stock prior to stated maturity, under the following circumstances: (1) during any calendar quarter (and only during such calendar quarter) commencing after June 30, 2004, and before June 30, 2029, if the last reported sale price of the Company s Common

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

7. SHAREHOLDERS EQUITY (Continued)

Stock is greater than or equal to 125 percent of the conversion price for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the preceding calendar quarter; (2) at any time on or after July 1, 2029 if the last reported sale price of the Company s Common Stock on any date on or after June 30, 2029 is greater than or equal to 125 percent of the conversion price; (3) subject to certain limitations, during the five business day period after any five consecutive trading day period in which the trading price per 2004 debenture for each day of that period was less than 98 percent of the product of the conversion rate and the last reported sale price of the Company s Common Stock; (4) if the Company calls the 2004 debentures for redemption; (5) upon the occurrence of certain corporate transactions; or (6) if the Company obtains credit ratings for the 2004 debentures, at any time when the credit ratings assigned to the 2004 debentures are below the specified levels in the indenture. As of December 31, 2004, none of the debentures had been converted or redeemed.

Concurrently with the sale of the 2004 debentures, the Company entered into a bond hedge transaction designed to mitigate the potential dilution from the conversion of the 2004 debentures. Under the ten year term of the bond hedge transaction, the Company may exercise an option to require a counterparty to deliver to the Company shares of Company Common Stock based at a price approximately equal to the conversion price of the 2004 debentures.

The cost of the bond hedge transaction was partially offset by the Company s sale to a counterparty of warrants to acquire up to 2,301,894 shares of the Company s Common Stock. The warrants are initially exercisable at a price of approximately $63.98 per share, subject to adjustment. The warrants may be settled through a net share settlement based on the amount by which the then current market price of the Company s Common Stock exceeds the exercise price.

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.

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

7. SHAREHOLDERS EQUITY (Continued)

A summary of unrealized gains (losses) and reclassification adjustments, net of tax, of available-for-sale securities for the years ended December 31, 2004, 2003 and 2002 follows:

	2004	2003	2002
		(In millions)	
Unrealized holding (losses) gains arising during the period	$ (5.5)	$ (5.6)	$ 30.3
Reclassification adjustment for gains (losses) previously included in other comprehensive income (net of tax expense (benefit) of $1.1 million 2004; $2.8 million 2003 and $0.4 million 2002)	1.9	5.1	(0.6)
Net unrealized holding (losses) gains arising during the period	$ (3.6)	$ (0.5)	$ 29.7

Net unrealized gains totaled $48.2 million and $53.9 million at December 31, 2004 and December 31, 2003, respectively.

8. 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 $478.8 million and $460.1 million at December 31, 2004 and 2003, 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 and limit the recognition of goodwill and deferred income tax assets. Statutory net income for the Company s insurance subsidiaries was $109.9 million, $163.1 million and $128.9 million in 2004, 2003 and 2002, respectively.

The Company s statutory-basis financial statements are prepared in accordance with accounting practices prescribed or permitted by insurance regulatory authorities. These regulatory authorities recognize only statutory accounting practices prescribed or permitted by their individual state for determining and reporting the financial condition and results of operations of an insurance company and for determining their solvency. The National Association of Insurance Commissioners (NAIC) *Accounting Practices and Procedures* manual (NAIC SAP) has been adopted as a component of prescribed or permitted practices by each of the states that regulate the Company. Each of the

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

8. STATUTORY FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

states have adopted a material prescribed accounting practice that differs from that found in NAIC SAP. Specifically, amounts added to the Statutory Premium Reserve are released more rapidly in the first three years of the twenty year release period under NAIC SAP than is allowed by state statute. Additionally, there are differences between NAIC SAP and state statute for allowable assets in the areas of deferred taxes, goodwill and EDP equipment.

A reconciliation of the Company s insurance subsidiaries net statutory surplus between NAIC SAP and practices prescribed and permitted by these states at December 31 is shown below:

	2004	2003	2002
		(In millions)	
Statutory surplus	$ 478.8	$ 460.1	$ 497.9
State prescribed practices:			
Release of statutory premium reserve	89.7	40.9	17.9
Deferred taxes	1.8	1.6	1.9
EDP equipment	2.1	2.1	1.4
Goodwill	2.8	4.5	1.2
Total adjustments	96.4	49.1	22..4
Statutory surplus, NAIC SAP	$ 575.2	$ 509.2	$ 520.3

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 insurance subsidiaries aggregating $83.0 million is available for dividends, loans or advances to the Company during the year 2005.

In addition, the credit agreement with SunTrust Bank (See Note 14) 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.

At December 31, 2004, the Company s insurance and industrial bank subsidiaries had $24.8 million on deposit with various state regulatory agencies that are shown primarily as investments on the consolidated balance sheet.

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

9. INVESTMENT INCOME

Earnings on investments and net realized gains for the three years ended December 31, follow:

	2004	2003	2002
		(In millions)	
Fixed maturities available-for-sale	$ 47.9	$ 47.9	$ 50.5
Equity securities	2.4	2.0	0.4
Short-term investments	2.8	2.6	2.2
Loans receivable	20.0	1.6	0.1
Other investment income	0.8	0.1	
Net realized gains	5.8	8.5	1.3
Total investment income	79.7	62.7	54.5
Investment expenses	(2.1)	(2.1)	(1.5)
Net investment income	$ 77.6	$ 60.6	$ 53.0

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

10. INCOME TAXES

The Company and its majority-owned subsidiaries file a consolidated federal income tax return. Significant components of the Company s deferred tax assets and liabilities at December 31, 2004 and 2003 were as follows:

	2004	2003
	(In millions)	
Deferred tax assets:		
Deferred income	$ 81.0	$ 65.0
Policy and contract claims	68.0	62.6
Employee benefit plans	32.0	28.7
Goodwill	30.0	39.7
Pension liability	16.5	17.8
Tax and flood claims	9.6	
Convertible debt	9.2	
Allowance for bad debts	4.9	6.3
Other	4.7	4.0
Total deferred tax assets	255.9	224.1
Deferred tax liabilities:		
Other intangibles	66.5	48.1
Unrealized gains	16.7	18.9
Fixed assets	10.0	8.6
Title plants	9.0	8.9
Capitalized system development costs	1.4	1.4
Other	2.8	4.0
Total deferred tax liabilities	106.4	89.9
Net deferred tax asset	$ 149.5	$ 134.2

A valuation allowance would be established for any portion of a deferred tax asset that management believes may not be realized. At December 31, 2004 and 2003, no valuation allowance was provided.

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

10. INCOME TAXES (Continued)

The breakout of the Company s income tax expense between current and deferred is as follows:

	2004	2003	2002
		(In millions)	
Current:			
Federal	$ 87.0	$ 100.0	$ 52.5
State	8.9	4.9	2.1
Total	95.9	104.9	54.6
Deferred:			
Federal	(11.6)	(0.1)	24.9
State	(4.5)		0.9
Total	(16.1)	(0.1)	25.8
Net tax expense	$ 79.8	$ 104.8	$ 80.4

The provision for income tax differs from the amount of income tax determined by applying the U.S. statutory income tax rate (35 percent) to pre-tax income as a result of the following:

	2004	2003	2002
		(In millions)	
Tax expense at federal statutory rate	$ 79.1	$ 103.9	$ 80.4
Federal tax credits	(1.7)	(1.3)	(0.7)
Nontaxable interest	(5.0)	(5.1)	(4.9)
Dividend deductions	(0.5)	(0.4)	(0.6)
Company-owned life insurance	(1.1)	(0.6)	(0.2)
Meals and entertainment	5.2	4.9	3.0
State income taxes, net of federal benefit	2.9	3.2	2.0
Other, net	0.9	0.2	1.4
Income tax expense	$ 79.8	$ 104.8	$ 80.4

Taxes paid were $103.5 million in 2004, $120.3 million in 2003 and $35.3 million in 2002.

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

11. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share for the years ended December 31:

	2004	2003	2002
	(In millions, except per common share amounts)		
Numerator:			
Net income numerator for diluted earnings per share	$ 146.3	$ 192.1	$ 149.4
Numerator for basic earnings per share	$ 146.3	$ 192.1	$ 149.4
Denominator:			
Weighted average shares denominator for basic earnings per share	18.1	18.4	18.4
Effect of dilutive securities:			
Employee stock options	0.2	0.2	0.2
Denominator for diluted earnings per share	18.3	18.6	18.6
Basic earnings per common share	$ 8.07	$ 10.43	$ 8.10
Diluted earnings per common share	$ 8.01	$ 10.31	$ 8.04

12. PENSIONS AND OTHER POSTRETIREMENT BENEFITS

The Company has pension and other retirement benefit plans covering substantially all employees. On December 31, 2004, the Company froze the accumulation of benefits available under its principal defined benefit pension plan. Effective December 31, 2004 the Company ceased future accruals to the retirement plan accounts of all plan participants (other than annual interest credits on account balances), caused the accrued benefits of participants to be fully vested as of December 31, 2004 and limited participation in the plan to those individuals who were participants in the Plan as of December 31, 2004.

Until December 31, 2004, the Company s principal pension plan was a non-contributory, qualified, defined benefit pension plan that provided benefits based on a cash balance formula. Each participant s account was credited annually with an amount equal to 2-5 percent of the participant s annual compensation based on the participant s age and years of credited service. Additionally, 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. Prior to January

1, 1999, the Company maintained two separate non-contributory defined benefit plans, which were merged into the current plan. Participants prior to January 1, 1999, who met the requirements for early retirement on

LANDAMERICA FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

12. PENSIONS AND OTHER POSTRETIREMENT BENEFITS (Continued)

that date, may elect to receive their retirement benefits under the applicable prior plan or formula. The Company s policy was to fund all accrued pension costs.

Additionally the Company sponsors a postretirement benefit plan that provides for postretirement health care and life insurance benefits to employees hired by the Company prior to January 1, 2000. The Company also sponsors non-qualified, unfunded supplemental benefit plans covering key management personnel.

Obligations, funded status and net amount recognized at December 31 are as follows:

	Pension Benefits		Other Benefits	
	2004	2003	2004	2003
	(In millions)			
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 267.7	$ 231.0	$ 60.3	$ 61.0
Service cost	12.5	9.3	0.8	0.7
Interest cost	15.0	14.5	3.1	3.8
Plan participants contributions			1.0	0.8
Effect of Medicare Act			(4.7)	
Actuarial loss (gain)	4.4	31.6	(2.9)	(1.7)
Curtailments	(13.7)			
Benefits paid	(26.0)	(18.7)	(4.3)	(4.3)
Benefit obligation at end of year	$ 259.9	$ 267.7	$ 53.3	$ 60.3
Change in plan assets:				
Fair value of plan assets at beginning of year	$ 197.9	$ 183.2	$	$
Actual return on plan assets	19.3	23.3		
Refund of plan assets				
Company contributions	26.0	10.2		
Plan participants contributions				
Benefits paid	(26.0)	(18.8)		
Fair value of plan assets at end of year	$ 217.2	$ 197.9	$	$
Funded status of the plan (underfunded)	$ (42.7)	$ (69.8)	$ (53.3)	$ (60.3)

Unrecognized net actuarial loss	76.8	93.4		1.4	9.5	
Unrecognized transition obligation				9.4	10.6	
Unrecognized prior service cost		)				
Stock-based compensation	2,423	—	—	—	—	2,423
Other comprehensive income, net of tax	—	—	108	12,430	7	12,545
Balance, March 31, 2016	$470,830	$(145,856)	$(14,046)	$ (39,802)	$3,546	$274,672

See notes to consolidated financial statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

STATEMENTS OF CONSOLIDATED CASH FLOWS
Alliance One International, Inc. and Subsidiaries

	Years Ended March 31,		
(in thousands)	2016	2015	2014
Operating activities			
Net income (loss)	$65,445	$(28,034)	$(102,876)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:			
Depreciation and amortization	28,361	29,623	32,427
Debt amortization/interest	11,333	8,816	12,707
Debt retirement	—	(771)	57,449
Restructuring and asset impairment charges	5,888	9,118	5,111
Loss on foreign currency transactions	6,498	8,274	12,348
Gain on sale of property, plant and equipment	(597)	(1,751)	(3,175)
Reconsolidation of subsidiary	(106,203)	—	—
Gain on disposition of stock in subsidiaries	—	—	(20,369)
Loss on acquisition of equity method investment	—	—	1,253
Bad debt expense	(169)	12,368	312
Equity in net income of unconsolidated affiliates, net of dividends	(4,105)	(2,823)	783
Stock-based compensation	2,874	3,194	3,222
Changes in operating assets and liabilities, net:			
Trade and other receivables	(149,825)	(50,358)	51,085
Inventories and advances to tobacco suppliers	(13,747)	(3,992)	168,900
Deferred items	(2,439)	(18,025)	4,888
Recoverable income taxes	(8,563)	(1,372)	(1,370)
Payables and accrued expenses	46,767	(23,408)	26,838
Advances from customers	(19,224)	(3,638)	3,330
Current derivative asset	1,373	(1,373)	3,145
Prepaids	6,218	1,743	4,238
Income taxes	2,943	5,511	538
Other operating assets and liabilities	(8,382)	1,452	(1,127)
Other, net	227	223	2,815
Net cash provided (used) by operating activities	(135,327)	(55,223)	262,472
Investing activities			
Purchases of property, plant and equipment	(17,194)	(25,273)	(24,928)
Intangibles, including internally developed software costs	—	(781)	(7,803)
Proceeds from sale of property, plant and equipment	2,270	16,840	9,336
Proceeds on sale of subsidiaries, net of cash divested	—	—	3,513
Payments to acquire equity method investments	—	(1,655)	(3,500)
Change in restricted cash	(276)	(1,678)	268
Surrender of life insurance policies	1,675	1,194	2,861
Other, net	—	(309)	(196)
Net cash used by investing activities	(13,525)	(11,662)	(20,449)

	Years Ended March 31,		
(in thousands)	2016	2015	2014
Financing activities			
Net proceeds (repayments) of short-term borrowings	$21,360	$145,988	$(87,398)
Proceeds from long-term borrowings	210,000	300,000	1,075,877
Repayment of long-term borrowings	(32,867)	(463,341)	(1,030,256)
Debt issuance cost	(5,325)	(6,538)	(22,764)
Debt retirement cost	—	—	(36,033)
Other, net	455	455	111
Net cash used by financing activities	193,623	(23,436)	(100,463)
Effect of exchange rate changes on cash	823	(608)	1,192
Increase (decrease) in cash and cash equivalents	45,594	(90,929)	142,752
Cash and cash equivalents at beginning of year	143,849	234,778	92,026
Cash assumed in reconsolidation of subsidiary	10,277	—	—
Cash and cash equivalents at end of year	$199,720	$143,849	$234,778
Other information:			
Cash paid for income taxes	$20,369	$16,192	$17,911
Cash paid for interest	104,882	98,957	105,192
Cash received from interest	(7,291)	(6,529)	(8,799)

See notes to consolidated financial statements.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 1 – Significant Accounting Policies

Description of Business
The Company is principally engaged in purchasing, processing, storing, and selling leaf tobacco. The Company purchases tobacco primarily in the United States, Africa, Europe, South America and Asia for sale to customers primarily in the United States, Europe and Asia.

Basis of Presentation
The accounts of the Company and its consolidated subsidiaries are included in the consolidated financial statements after elimination of intercompany accounts and transactions. The Company uses the cost or equity method of accounting for its investments in affiliates that are owned 50% or less and are not variable interest entities where the Company is the primary beneficiary.

On March 26, 2014, the Company sold 51% of a Brazilian subsidiary to China Tobacco and reported its remaining 49% interest in the subsidiary under the equity method of accounting at March 31, 2014. For the year ending March 31, 2014, the Consolidated Statements of Operations include the results of operations for this subsidiary through March 26, 2014. After March 26, 2014, results of operations for this subsidiary are reported in accordance with equity method accounting. See Note 10 “Equity in Net Assets of Investee Companies” to the “Notes to Consolidated Financial Statements” for further information.

In fiscal 2006, the Company deconsolidated its Zimbabwe subsidiary, Mashonaland Tobacco Company LTD ("MTC") in accordance with accounting requirements that apply to foreign subsidiaries that are subject to foreign exchange controls and other government restrictions that casted significant doubt on the parent's ability to control the subsidiary. As of March 31, 2016, the Company determined that significant doubt about its ability to control MTC was eliminated due to changes in the political landscape and the recent issuance of clarifications to the indigenization laws within Zimbabwe. The recent issuance of clarifications to the indigenization law within Zimbabwe resulted in the Company's development and filing with the Zimbabwean government of a plan of compliance with the indigenization law on March 31, 2016, the date of reconsolidation of MTC. The reconsolidation has been treated as a purchase business combination for accounting purposes, with the Company designated as the acquirer. As such, the Consolidated Balance Sheet includes 100% of the fair value of the assets and liabilities of MTC as of March 31, 2016. See Note 22 “Reconsolidation of MTC” to the “Notes to Consolidated Financial Statements” for further information. Prior to March 31, 2016, the Company accounted for its investment in MTC on the cost method and had been reporting it in Investments in Unconsolidated Affiliates in the Consolidated Balance Sheets since March 31, 2006 and had written its investment in MTC down to zero in fiscal 2007. At March 31, 2015, the Company guaranteed an amount outstanding to MTC of $49,208 at March 31, 2015.

Restatement of Previously Reported Financial Information
During the year ended March 31, 2016, the Company identified certain immaterial errors in previously issued financial statements related to inventory, cost of goods sold and income tax.

- The Company became aware of improper inventory entries in a European subsidiary's records resulting in an understatement of cost of goods sold of $674 for the year ended March 31, 2015 and $706 for the year ended March 31, 2014.
- The Company identified a misstatement of recoverable income tax in an international jurisdiction in prior periods resulting in an understatement of income tax expense of $1,058 for the year ended March 31, 2015 and $766 for the year ended March 31, 2014.

Additionally, the Company corrected the classification of amounts between line items on the Consolidated Statements of Operations and the Consolidated Balance Sheets included in the previously issued financial statements. For the year ended March 31, 2015, reclassification of $1,456 was made between “Other income (expense)” and “Cost of goods and services sold.” There was no change to operating income or net income as a result of this reclassification. For the year ended March 31, 2015, reclassifications of $1,044 between deferred tax assets and liabilities and $11,808 between "Accounts receivable, related parties" and "Pension, postretirement and other long-term liabilities" were made.
The Company has evaluated the effects of the above misstatements on its consolidated financial statements for each of these years in accordance with the guidance provided by SEC Staff Accounting Bulletin No. 108, codified as SAB Topic 1.N, “Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in the Current Year Financial Statements,” and concluded that none of these years are materially misstated. The effect of correcting these misstatements within the accompanying consolidated financial statements, and as permitted by SAB Topic 1.N, the Company was to increase Net Loss attributable to Alliance One International, Inc.” for the years ended March 31, 2015 and 2014 by $1,732 and $1,472, respectively. See Note 23 “Reconciliation

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 1 - Significant Accounting Policies (continued)

Restatement of Previously Reported Financial Information (continued)
of Previously Reported Amounts to Amounts Revised and Restated" to the "Notes to Consolidated Financial Statements" for the impact of these corrections on previously reported amounts for the years ended March 31, 2015 and 2014.

Investments in Unconsolidated Affiliates
The Company's equity method investments and its cost method investments are non-marketable securities. The Company reviews such investments for impairment whenever events or changes in circumstances indicate that the carrying amount of an investment may not be recovered. For example, the Company would test such an investment for impairment if the investee were to lose a significant customer, suffer a large reduction in sales margins, experience a major change in its business environment, or undergo any other significant change in its normal business. In assessing the recoverability of equity or cost method investments, the Company uses discounted cash flow models. If the fair value of an equity investee is determined to be lower than its carrying value, an impairment loss is recognized. The preparation of discounted future cash flow analysis requires significant management judgment with respect to future operating earnings growth rates and the selection of an appropriate discount rate. The use of different assumptions could increase or decrease estimated future operating cash flows, and the discounted value of those cash flows, and therefore could increase or decrease any impairment charge.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities. They also affect the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates, and changes in these estimates are recorded when known. Estimates are used in accounting for, among other things, pension and postretirement health care benefits, inventory market values, allowances for doubtful accounts and advances, bank loan guarantees to suppliers and unconsolidated subsidiaries, useful lives for depreciation and amortization, future cash flows associated with impairment testing for long-lived assets, deferred tax assets and uncertain income tax positions, intrastate tax credits in Brazil and fair value determinations of financial assets and liabilities including derivatives, securitized beneficial interests and counterparty risk. Changes
in market and economic conditions, local tax laws, and other related factors are considered each reporting period, and adjustments to the accounts are made based on the Company's best judgment.

Revenue Recognition
The Company recognizes revenue from the sale of tobacco when persuasive evidence of an arrangement exists, the price to the customer is fixed or determinable, collectibility is reasonably assured and title and risk of ownership is passed to the customer, which is upon shipment or delivery. The Company requires that all customer-specific acceptance provisions be met at the time title and risk of ownership passes to the customer. Furthermore, the Company's sales history indicates customer returns and rejections are not significant.

The Company also processes tobacco owned by its customers and revenue is recognized based on contractual terms as the service is provided. The revenue and cost associated with processing is recorded gross in the Statements of Consolidated Operations. The Company's history indicates customer requirements for processed tobacco are met upon completion of processing. In addition, advances from customers are deferred and recognized as revenue upon shipment or delivery.

Taxes Collected from Customers

Certain subsidiaries are subject to value added taxes on local sales. These amounts have been included in sales and cost of goods and services sold and were $23,451, $25,282 and $22,778 for the years ended March 31, 2016, 2015 and 2014, respectively.

Shipping and Handling

Shipping and handling costs are included in cost of goods and services sold in the statement of operations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 1 - Significant Accounting Policies (continued)

Other Income (Expense)
At March 31, 2016, the Company reconsolidated MTC. As a result, the Company recorded a gain of $106,203 to record the fair value of MTC of which $10,277 was cash and the remaining $95,926 was non-cash. During the quarter ended March 31, 2014, the Company completed the formation of a new joint venture company in Brazil with the sale of 51% of a formerly wholly owned Brazilian subsidiary. The transaction consisted of receiving $8,761 of cash in exchange for the sale of 51% of the shares of the subsidiary. The Company accounted for the transaction as a deconsolidation of a subsidiary, which required the Company's retained noncontrolling interest to be recorded at fair value, which equaled $19,691. The carrying amount of the former subsidiary's assets and liabilities equaled $7,553, which resulted in a gain of $20,899 that was recorded in Other Income in the Statements of Consolidated Operations.

Other Income (Expense) also includes gains on sales of property, plant and equipment and assets held for sale. This caption also includes expenses related to the Company's sale of receivables. See Note 17 "Sale of Receivables" to the "Notes to Consolidated Financial Statements" for further information.

The following table summarizes the significant components of Other Income (Expense).

	Years Ending March 31,		
	2016	2015	2014
Turkey other property sales	$—	$—	$2,700
Brazil 51% subsidiary investment sale	—	—	20,899
Gain on reconsolidation of subsidiary	106,203	—	—
Other sales of assets and expenses	4,904	7,359	2,138
Losses on sale of receivables	(5,680)	(7,425)	(6,977)
	$105,427	$(66)	$18,760

Cash and Cash Equivalents
Cash equivalents are defined as temporary investments of cash with original maturities of less than 90 days. At March 31, 2016 and 2015, respectively, customer funding that was restricted for social responsibility programs maintained by the Company of $188 and $599 and cash held on deposit as a compensating balance for short-term borrowings of $2,137 and $2,122 were included in Other Current Assets.

Trade Receivables, Net
Trade receivables are amounts owed to the Company from its customers. Trade receivables are recorded at invoiced amounts and primarily have net 30 day terms. The Company extends credit to its customers based on an evaluation of a company's financial condition and collateral is generally not required.

The Company maintains an allowance for doubtful accounts for estimated uncollectible accounts receivable. The allowance is based on the Company's assessment of known delinquent accounts, other currently available evidence of collectability and the aging of accounts receivable. The Company's allowance for doubtful accounts was $12,984 and $13,687 at March 31, 2016 and 2015 respectively. The provision for doubtful accounts was $(169), $12,446 and $551 for the years ending March 31, 2016, 2015 and 2014, respectively and is reported in Selling, General and Administrative Expenses in the Statements of Consolidated Operations.

Other Receivables
Other receivables consist primarily of receivables related to participation in a subsidiary funding arrangement of $84,258 and $46,132; and value added tax receivables of $9,377 and $7,334 at March 31, 2016 and 2015,

respectively.

Other Deferred Charges
Other deferred charges are primarily deferred financing costs that are amortized over the life of long-term debt.

Sale of Accounts Receivable
The Company is currently engaged in two revolving trade accounts receivable securitization arrangements to sell receivables. The Company records the transaction as a sale of receivables, removes such receivables from its financial statements and records a receivable for the beneficial interest in such receivables. The losses on the sale of receivables are recognized in Other Income. As of March 31, 2016 and 2015, respectively, accounts receivable sold and outstanding were $188,764 and $235,162. See Note 17 “Sale of Receivables” and Note 18 “Fair Value Measurements” to the “Notes to Consolidated Financial Statements” for further information.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 1 - Significant Accounting Policies (continued)

Inventories
Costs in inventory include processed tobacco inventory, unprocessed tobacco inventory and other inventory. Costs of unprocessed tobacco inventories are determined by the average cost method, which include the cost of green tobacco. Costs of processed tobacco inventories are determined by the average cost method, which include both the cost of unprocessed tobacco, as well as direct and indirect costs that are related to the processing of the product. Costs of other non-tobacco inventory are determined by the first-in, first-out method, which include costs of packing materials, non-tobacco agricultural products and agricultural supplies including seed, fertilizer, herbicides and pesticides.

Inventories are carried at the lower of cost or market (“LCM”). The Company evaluates its inventories for LCM adjustments by country and type of inventory. Therefore, processed tobacco and unprocessed tobacco are evaluated separately for LCM purposes. The Company compares the cost of its processed tobacco to market values based on recent sales of similar grades when evaluating those balances for LCM adjustments. The Company also considers whether its processed tobacco is committed to a customer, whereby the expected sales price would be utilized in determining the market value for committed tobacco. The Company also reviews data on market conditions in performing its LCM evaluation for unprocessed tobacco.

See Note 2 “Inventories” to the “Notes to Consolidated Financial Statements” for further information.

Advances to Tobacco Suppliers
The Company purchases seeds, fertilizer, pesticides and other products related to growing tobacco and advances them to suppliers, which represents prepaid inventory and is recorded as advances to tobacco suppliers. The advances of current crop inputs generally include the original cost of the inputs plus a mark-up and interest as it is earned. Where contractually permitted, the Company charges interest to the suppliers during the period the current crop advance is outstanding. The Company generally advances the inputs at a price that is greater than its cost, which results in a mark-up on the inputs. The suppliers then utilize these inputs to grow tobacco, which the Company is contractually obligated to purchase. Upon delivery of tobacco, part of the purchase price to the supplier is paid in cash and part through a reduction of the advance balance. The advances applied to the delivery are reclassified out of advances and into unprocessed inventory. Advances to tobacco suppliers are accounted for utilizing a cost accumulation methodology.

The Company has current and noncurrent advances to tobacco suppliers. The current advances represent the cost of the seeds, fertilizer and other materials that are advanced for the current crop of inventory. The noncurrent advances generally represent the cost of advances to suppliers for infrastructure, such as curing barns, which is also recovered through the delivery of tobacco to the Company by the suppliers. As a result of various factors in a given crop year (weather, etc.) not all suppliers are able to settle the entire amount of advances that are due that year. In these situations, the Company may allow the suppliers to deliver tobacco over future crop years to recover its advances. The advance balances that are deferred over future crop years are also classified as noncurrent.

Advances to tobacco suppliers are carried at cost and evaluated for recoverability. The realizability evaluation process is similar to that of the LCM evaluation process for inventories. The Company evaluates its advances for recoverability by crop and country. The Company reclasses the advance to inventory at the time suppliers deliver tobacco. The purchase price for the tobacco delivered by the suppliers is based on market prices. Two primary factors determine the market value of the tobacco suppliers deliver: the quantity of tobacco delivered and the quality of the tobacco delivered. Therefore, the Company ensures its advances are appropriately stated at the lower of cost or estimated recoverable amounts.

Upon delivery of tobacco, part of the purchase price to the supplier is paid in cash and part through a reduction of the advance balance. If a sufficient value of tobacco is not delivered to allow the reduction of the entire advance balance, then the Company first determines how much of the deficiency for the current crop is recoverable through future crops. This determination is made by analyzing the suppliers' ability-to-deliver a sufficient supply of tobacco. This analysis includes historical quantity and quality of production with monitoring of crop information provided by field service technicians related to flood, drought and disease. The remaining recoverable advance balance would then be classified as noncurrent. Any increase in the estimate of unrecoverable advances associated with the noncurrent portion is charged to cost of goods and services sold in the income statement when determined. Amounts not expected to be recovered through current or future crops are then evaluated to determine whether the yield is considered to be normal or abnormal. If the yield adjustment is normal, then the Company capitalizes the applicable variance in the current crop of inventory. If the yield adjustment is considered abnormal, then the Company immediately charges the applicable variance to cost of goods and services sold in the income statement. A normal yield adjustment is based on the range of unrecoverability for the previous three years by country.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 1 - Significant Accounting Policies (continued)

Advances to Tobacco Suppliers (continued)
The Company accounts for its advances to tobacco suppliers using a cost accumulation model, which results in the reporting of its advances at the lower of cost or recoverable amounts exclusive of the mark-up and interest. The mark-up and interest on its advances are recognized upon delivery of tobacco as a decrease in the cost of the current crop. The mark-up and interest capitalized or to be capitalized into inventory for the current crop was $14,208 and $19,823 as of March 31, 2016 and 2015, respectively. Unrecoverable advances and other costs capitalized or to be capitalized into the current crop was $8,535 and $11,404 at March 31, 2016 and 2015, respectively. The following table reflects the classification of advances to tobacco suppliers:

	March 31, 2016	March 31, 2015
Current	$41,837	$37,767
Noncurrent	2,612	3,758
	$44,449	$41,525

Noncurrent advances to tobacco suppliers are recorded in Other Noncurrent Assets in the Consolidated Balance Sheets.

Unrecovered amounts expensed directly to cost of goods and services sold in the income statement for abnormal yield adjustments or unrecovered amounts from prior crops were $1,085 and $11,587 for the years ended March 31, 2015 and 2014, respectively. There were no such abnormal yield adjustments or unrecovered amounts for the year ended March 31, 2016. Normal yield adjustments are capitalized into the cost of the current crop and are expensed as cost of goods and services sold as that crop is sold.

Guarantees
The Company and certain of its foreign subsidiaries guarantee bank loans to suppliers to finance their crops. Under longer-term arrangements, the Company may also guarantee financing on suppliers’ construction of curing barns or other tobacco production assets. Guaranteed loans are generally repaid concurrent with the delivery of tobacco to the Company. The Company is obligated to repay any guaranteed loan should the supplier default. If default occurs, the Company has recourse against the supplier. The Company also guarantees bank loans of certain unconsolidated subsidiaries in Asia and Brazil. The following table summarizes amounts guaranteed and the fair value of those guarantees:

	March 31, 2016	March 31, 2015
Amounts guaranteed (not to exceed)	$210,703	$300,557
Amounts outstanding under guarantees	107,615	185,486
Fair value of guarantees	7,350	8,650

Of the guarantees outstanding at March 31, 2016, all expire within one year. The fair value of guarantees is recorded in Accrued Expenses and Other Current Liabilities in the Consolidated Balance Sheets and included in crop costs except for the joint venture in Brazil which are included in Accounts Receivable, Related Parties.

In Brazil, some suppliers obtain government subsidized rural credit financing from local banks that is guaranteed by the Company. The Company withholds amounts owed to suppliers related to the rural credit financing of the supplier upon delivery of tobacco to the Company. The Company remits payments to the local banks on behalf of the guaranteed suppliers. Terms of rural credit financing are such that repayment is due to local banks based on contractual due dates. As of March 31, 2016 and 2015, respectively, the Company had balances of $16,699 and $16,412 that were due to local banks on behalf of suppliers. These amounts are included in Accounts Payable in the Consolidated Balance Sheets.

Goodwill and Other Intangibles

Goodwill represents the excess of purchase price over fair value of net assets acquired, and is allocated to the appropriate reporting unit when acquired. Goodwill is not amortized; rather it is evaluated for impairment annually or whenever events or changes in circumstances indicate that the value of the asset may be impaired. Goodwill is evaluated for impairment by determining the fair value of the related reporting unit. Fair value is measured based on a discounted cash flow method or relative market-based approach. If the carrying amount of goodwill exceeds its fair value, an impairment charge is recorded.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 1 - Significant Accounting Policies (continued)

Goodwill and Other Intangibles (continued)
The Company has no intangible assets with indefinite useful lives. It does have other intangible assets, production and supply contracts and a customer relationship intangible asset as well as internally developed software that is capitalized into intangibles. These intangible assets are stated at amortized cost and tested for impairment whenever factors indicate the carrying amount may not be recoverable. Supply contracts are amortized based on the expected realization of the benefit over the term of the contracts ranging from 3 to 5 years. Production contracts and the customer relationship intangible are both amortized on a straight-line basis ranging from five to ten years and twenty years, respectively. The amortization period is the term of the contract or, if no term is specified in the contract, management’s best estimate of the useful life based on past experience. Internally developed software is amortized on a straight-line basis over five years once the software testing is complete. Events and changes in circumstance may either result in a revision in the estimated useful life or impairment of an intangible. See Note 5 “Goodwill and Other Intangibles” to the “Notes to Consolidated Financial Statements” for further information.

Other Noncurrent Assets
For the year ended March 31, 2016, other noncurrent assets consist primarily of long-term VAT and intrastate tax receivables of $4,816, long-term advances to suppliers of $2,612 and cash surrender value of life insurance of $5,575. For the year ended March 31, 2015, other noncurrent assets consist primarily of long-term VAT and intrastate tax receivables of $8,098, long-term advances to suppliers of $3,758 and cash surrender value of life insurance of $7,076.

Property, Plant and Equipment
Property, plant and equipment at March 31, 2016 and 2015, are summarized as follows:

	2016	2015
Land	$26,995	$21,564
Buildings	211,540	170,937
Machinery and equipment	183,000	173,670
Total	421,535	366,171
Less accumulated depreciation	(144,010)	(128,257)
Total property, plant and equipment, net	$277,525	$237,914

Property, plant and equipment is stated at cost less accumulated depreciation. Provisions for depreciation are computed on a straight-line basis at annual rates calculated to amortize the cost of depreciable properties over their estimated useful lives. Buildings and machinery and equipment are depreciated over ranges of 20 to 30 years and 3 to 10 years, respectively. The consolidated financial statements do not include fully depreciated assets. Depreciation expense recorded in Cost of Goods and Services Sold for the years ended March 31, 2016, 2015 and 2014 was $23,132, $24,179 and $25,706, respectively. Depreciation expense recorded in Selling, General and Administrative Expense for the years ended March 31, 2016, 2015 and 2014 was $2,699, $2,998 and $3,209, respectively. Total property and equipment purchases, including internally developed software intangibles, were $17,786 for the year ended March 31, 2016 of which $1,359 was unpaid at March 31, 2016 and included in Accounts Payable; $22,673 for the year ended March 31, 2015 of which $1,024 was unpaid at March 31, 2015 and included in Accounts Payable; and $27,755 for the year ended March 31, 2014 of which $4,322 was unpaid at March 31, 2014 and included in Accounts Payable. Estimated useful lives are periodically reviewed and changes are made to the estimated useful lives when necessary. Long-lived assets are reviewed for indicators of impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The evaluation is performed at the lowest level of identifiable cash flows. An impairment loss would be recognized when estimated undiscounted future cash flows from the use of the asset and its eventual disposition are less than its carrying amount. Measurement of an impairment loss would be based on the excess of the carrying amount of the asset over its fair value. Fair value is the amount at which the asset could be bought or sold in a current transaction between willing parties and may be estimated using a number of techniques, including quoted market prices or valuations, present value techniques based on estimates of cash flows, or multiples of earnings or revenue performance measures.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 1 - Significant Accounting Policies (continued)

Derivative Financial Instruments
The Company uses forward or option currency contracts to protect against volatility associated with certain non-U.S. dollar denominated forecasted transactions. The contracts do not qualify for hedge accounting as defined by generally accepted accounting principles. As a result, the Company has recorded losses of $2,001, $3,123 and $1,468 in its Cost of Goods and Services Sold for the years ended March 31, 2016, 2015 and 2014, respectively. See Note 6 “Derivative and Other Financial Instruments” to the "Notes to Consolidated Financial Statements" for further information.

Income Taxes
The Company uses the asset and liability method to account for income taxes. The objective of the asset and liability method is to establish deferred tax assets and liabilities for the temporary differences between the financial reporting basis and the income tax basis of the Company’s assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized or settled.

The Company’s annual tax rate is based on its income, statutory tax rates and tax planning opportunities available to it in the various jurisdictions in which it operates. Tax laws are complex and subject to different interpretations by the taxpayer and respective governmental taxing authorities. Significant judgment is required in determining tax expense and in evaluating tax positions, including evaluating uncertainties. The Company reviews its tax positions quarterly and adjusts the balances as new information becomes available.

Deferred income tax assets represent amounts available to reduce income taxes payable on taxable income in future years. Such assets arise because of temporary differences between the financial reporting and tax bases of assets and liabilities, as well as from net operating loss and tax credit carryforwards. The Company evaluates the recoverability of these future tax deductions by assessing the adequacy of future expected taxable income from all sources, including reversal of taxable temporary differences, forecasted operating earnings and available tax planning strategies. These sources of income inherently rely on estimates. The Company uses historical experience and short and long-range business forecasts to provide insight. The Company believes it is more likely than not that a portion of the deferred income tax assets may expire unused and has established a valuation allowance against them. Although realization is not assured for the remaining deferred income tax assets, the Company believes it is more likely than not the deferred tax assets will be fully recoverable within the applicable statutory expiration periods. However, deferred tax assets could be reduced in the near term if estimates of taxable income are significantly reduced or available tax planning strategies are no longer viable. See Note 12 “Income Taxes” to the “Notes to Consolidated Financial Statements” for further information.

Stock-Based Compensation
The Company expenses the fair value of grants of various stock-based compensation programs at fair value over the vesting period of the awards. The fair value of stock options is estimated at the date of grant using the Black-Scholes-Merton option valuation model which was developed for use in estimating the fair value of exchange traded options that have no vesting restrictions and are fully transferable. Option valuation methods require the input of highly subjective assumptions, including the expected stock price volatility. See Note 11 “Stock-Based Compensation” to the “Notes to Consolidated Financial Statements” for further information.

New Accounting Standards

Recently Adopted Accounting Pronouncements

In November 2015, the FASB issued new accounting guidance regarding the balance sheet classification of deferred income taxes. The primary objective of this accounting guidance is to classify all deferred income tax assets and liabilities as noncurrent in a classified statement of financial position. The Company adopted this accounting guidance on March 31, 2016 on a prospective basis. Current deferred tax assets of $16,284 and current deferred tax liabilities of $4,236 were reclassified as noncurrent in the Consolidated Balance Sheet for the year ended March 31, 2016. There was no material impact to results of operations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 1 - Significant Accounting Policies (continued)

New Accounting Standards (continued)

Recent Accounting Pronouncements Not Yet Adopted
In May 2014, the Financial Accounting Standards Board ("FASB") issued new accounting guidance that outlines a single comprehensive model to use in accounting for revenue from contracts with customers. The primary objective of this accounting guidance is to recognize revenue that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. This accounting guidance, as amended, is effective for the Company on April 1, 2018. The Company is currently evaluating the impact of this new guidance.

In August 2014, the FASB issued new accounting guidance on determining when and how to disclose going concern uncertainties in the financial statements. The primary objective of this accounting guidance is for management to perform interim and annual assessments of an entity’s ability to continue as a going concern within one year of the date the financial statements are issued and provide certain disclosures if conditions or events raise substantial doubt about the entity’s ability to continue as a going concern. This accounting guidance is effective for the Company on March 31, 2017. The Company is currently evaluating the impact of this new guidance and does not expect it to have a material impact on its financial condition or results of operations.

In April 2015, the FASB issued new accounting guidance that changes the presentation of debt issuance costs in financial statements. The primary objective of this accounting guidance is to present these costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs is still reported as interest expense. This accounting guidance is effective for the Company on April 1, 2016. The Company is currently evaluating the impact of this new guidance and does not expect it to have a material impact on its financial condition or results of operations.

In July 2015, the FASB issued new accounting guidance that simplifies the measurement of inventory. Under the previous accounting guidance, an entity measured inventory at the lower of cost or market with market defined as one of three different measures. The primary objective of this accounting guidance is to require a single measurement of inventory at the lower of cost and net realizable value. This accounting guidance is effective for the Company on April 1, 2017. The Company is currently evaluating the impact of this new guidance.

In August 2015, the FASB issued new accounting guidance that clarifies the presentation of debt issuance costs associated with line-of-credit arrangements in financial statements. The primary objective of this accounting guidance is to present these costs as an asset in the balance sheet. The accounting guidance issued in April 2015 did not address the presentation of debt issuance costs for this type of arrangement. This accounting guidance is effective for the Company on April 1, 2016. The Company is currently evaluating the impact of this new guidance and does not expect it to have a material impact on its financial condition or results of operations.

In January 2016, the FASB issued new accounting guidance regarding certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The primary objective of this accounting guidance is to provide users of financial statements with more decision-useful information. The accounting guidance will be effective for the Company on April 1, 2018. The Company is currently evaluating the impact of this guidance.

In February 2016, the FASB issued new accounting guidance regarding the treatment of leases. The primary objective of this accounting guidance is to increase transparency and comparability amount organization by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. This accounting guidance will be effective for the Company April 1, 2020. The Company is currently evaluating the impact of this new guidance.

In March 2016, the FASB issued new accounting guidance for simplifying the treatment of employee share-based payments. The primary objective is improve areas of GAAP for which cost and complexity can be reduced while maintaining or improving the usefulness of information provided to users of financial statements. This accounting guidance will be effective for the Company on April 1, 2017. The Company is currently evaluating the impact of this new guidance.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 1 - Significant Accounting Policies (continued)

Computation of Earnings (Loss) Per Common Share
Years Ended March 31,

(in thousands, except per share data)	2016	2015	2014
BASIC EARNINGS (LOSS)			
Net income (loss) attributable to Alliance One International, Inc.	$ 65,532	$ (27,862)	$ (102,533)
SHARES			
Weighted Average Number of Shares Outstanding	8,882	8,829	8,772
BASIC EARNINGS (LOSS) PER SHARE	$ 7.38	$ (3.16)	$ (11.69)
DILUTED EARNINGS (LOSS)			
Net income (loss) attributable to Alliance	$ 65,532	$ (27,862)	$ (102,533)

One International, Inc.			
Plus interest expense on 5 ½% convertible notes, net of tax		— *	— *
Net income (loss) attributable to Alliance One International, Inc. as adjusted	$65,532	$(27,862)	$(102,533)
SHARES			
Weighted average number of shares outstanding	8,882	8,829	8,772
1 Plus: Restricted shares issued and shares applicable to stock options and restricted stock units, net of shares assumed to		— *	—

be purchased from proceeds at average market price			
Assuming conversion of 5 ½% convertible notes	— *	— *	—
Shares applicable to stock warrants	— **	— **	— **
Adjusted weighted average number of shares outstanding	8,883	8,829	8,772
DILUTED EARNINGS (LOSS) PER SHARE	$(17.38)	$(3.16)	$(11.69)

* Assumed conversion of convertible notes at the beginning of the period has an antidilutive effect on earnings (loss) per share. All outstanding restricted shares and shares applicable to stock options and restricted stock units are excluded because their inclusion would have an antidilutive effect on the loss per share.

** For the years ended March 31, 2015 and 2014 the warrants were not assumed exercised because the exercise price was more than the average price for the period. The warrants were fully expired on April 8, 2015.

The weighted average number of common shares outstanding is reported as the weighted average of the total shares of common stock outstanding net of shares of common stock held by a wholly owned subsidiary. Shares of common stock owned by the subsidiary were 785 at March 31, 2016 and 2015. This subsidiary waives its right to receive dividends and it does not have the right to vote.

Certain potentially dilutive options were not included in the computation of earnings per diluted share because their exercise prices were greater than the average market price of the shares of common stock during the period and their effect would be antidilutive. These shares totaled 471 at a weighted average exercise price of $60.70 per share at March 31, 2016, 661 at a weighted average exercise price of $60.37 per share at March 31, 2015 and 688 at a weighted average exercise price of $60.45 per share at March 31, 2014.

In connection with the offering of the Company’s 5.50% Convertible Senior Subordinated Notes due 2014, issued on July 2, 2009 (the “Convertible Notes”), the Company entered into privately negotiated convertible note hedge transactions (the “convertible note hedge transactions”) equal to the number of shares that underlie the Company’s Convertible Notes. These convertible note hedge transactions were designed to reduce the potential dilution of the

Company's common stock upon conversion of the Convertible Notes in the event that the value per share of common stock exceeds the initial conversion price of $50.28 per share. These shares were not included in the computation of earnings per diluted share because their inclusion would be antidilutive. The Convertible Notes matured during the second quarter of fiscal 2015.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 1 - Significant Accounting Policies (continued)

Other Comprehensive Income (Loss)
The following tables set forth the changes in each component of accumulated other comprehensive income (loss), net of tax, attributable to the Company:

	Currency Translation Adjustment	Pensions, Net of Tax	Accumulated Other Comprehensive Income (Loss)
Balances, March 31, 2013	$ (5,724)	$ (49,693)	$ (55,417)
Other comprehensive losses before reclassifications	4,084	10,129	14,213
Amounts reclassified to net income, net of tax	—	2,878	2,878
Other comprehensive losses, net of tax	4,084	13,007	17,091
Balances, March 31, 2014	(1,640)	(36,686)	(38,326)
Other comprehensive income before reclassifications	(12,514)	(16,257)	(28,771)
Amounts reclassified to net loss, net of tax	—	711	711
Other comprehensive income, net of tax	(12,514)	(15,546)	(28,060)
Balances, March 31, 2015	(14,154)	(52,232)	(66,386)
Other comprehensive losses before reclassifications	108	7,811	7,919
Amounts reclassified to net loss, net of tax	—	4,619	4,619
Other comprehensive losses, net of tax	108	12,430	12,538
Balances, March 31, 2016	$ (14,046)	$ (39,802)	$ (53,848)

The following table sets forth amounts by component, reclassified from accumulated other comprehensive income (loss) to net income (loss) for the years ended March 31, 2016, 2015 and 2014:

	Years Ended March 31,		
	2016	2015	2014
Pension and postretirement plans *:			
Actuarial loss	$3,629	$3,092	$4,436
Amortization of prior service cost (credit)	840	(2,213)	(1,369)
Deferred income tax benefit	150	(168)	(189)
Amounts reclassified from accumulated other comprehensive income (loss) to net income (loss)	$4,619	$711	$2,878

* Amounts are included in net periodic benefit costs for pension and postretirement plans.

Concentration of Credit Risk
The Company may potentially be subject to a concentration of credit risks due to tobacco supplier advances and trade receivables relating to customers in the tobacco industry as well as cash which is deposited with high-credit-quality financial institutions. See Note 14 “Segment Information” to the “Notes to Consolidated Financial Statements” for further information of particular concentrations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 1 - Significant Accounting Policies (continued)

Preferred Stock
The Board of Directors is authorized to issue shares of Preferred Stock in series with variations as to the number of shares in any series. The Board of Directors also is authorized to establish the rights and privileges of such shares issued, including dividend and voting rights. At March 31, 2016, 10,000 shares of preferred stock were authorized and no shares had been issued.

Note 2 – Inventories

	March 31, 2016	March 31, 2015
Processed tobacco	$584,158	$491,319
Unprocessed tobacco	175,933	204,735
Other	31,249	43,509
	$791,340	$739,563

See Note 1 “Significant Accounting Policies - Inventories” to the “Notes to Consolidated Financial Statements” for further information on the costs that comprise the inventory balances and the LCM testing methodologies.

The Company recorded LCM adjustments of $5,996, $7,533 and $6,314 for the years ended March 31, 2016, 2015 and 2014, respectively.

Note 3 – Variable Interest Entities

The Company holds variable interests in seven joint ventures that are accounted for under the equity method of accounting. These joint ventures procure inventory on behalf of the Company and the other joint venture partners. The variable interests relate to equity investments and advances made by the Company to the joint ventures. In addition, the Company also guarantees two of its joint ventures' borrowings which also represent a variable interest in those joint ventures. The Company is not the primary beneficiary, as it does not have the power to direct the activities that most significantly impact the economic performance of the entities as a result of the entities’ management and board of directors structure. Therefore, these entities are not consolidated. At March 31, 2016 and 2015, the Company’s investment in these joint ventures was $57,243 and $53,678, respectively and is classified as Investments in Unconsolidated Affiliates in the Consolidated Balance Sheets. The Company’s advances to these joint ventures were $1,920 and $3,293 at March 31, 2016 and 2015, respectively, and are classified as Accounts Receivable, Related Parties in the Consolidated Balance Sheets. The Company guaranteed an amount to two joint ventures not to exceed $100,238 and $105,983 at March 31, 2016 and 2015, respectively. The investments, advances and guarantees in these joint ventures represent the Company’s maximum exposure to loss.

Note 4 – Restructuring and Asset Impairment Charges

During the quarter ended March 31, 2015, the Company announced the first phase of a global restructuring plan focusing on efficiency and cost improvements. The Company reviewed origin and corporate operations and initiatives were implemented to increase operational efficiency and effectiveness. These initiatives continue to occur as the Company restructures certain operations not meeting strategic business objectives and performance metrics in future periods. At March 31, 2016, the costs of these future initiatives is not estimable. During the fiscal year ended March 31, 2016 the Company recorded $(498) of employee severance charges and $5,723 of asset impairment charges. The asset impairment charges were incurred due to restructuring of certain operations in Africa, Bulgaria and Brazil as well as the curtailment of certain U.S. pension plans. During the fiscal year ended March 31, 2015, charges of $8,612 were incurred in connection with the reduction in the global workforce. Also during the fiscal year ended March 31, 2015, the Company recorded a $500 asset impairment charge resulting from certain machinery in a former U.S. cut rag facility as operations moved to a new facility.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 4 – Restructuring and Asset Impairment Charges (continued)

In prior fiscal years, the Company implemented several strategic initiatives in response to shifts in supply and demand balances and changing business models of its customers. These initiatives were substantially complete at March 31, 2014. The Company continued to focus on improving factory efficiencies and other core components of its business. As part of this focus, the Company agreed to a joint processing venture in one of its foreign locations during the three months ended June 30, 2013. As a result, the Company recorded pretax charges of $2,745 in connection with the reduction in workforce including the effect on the Company's defined benefit pension plans of $1,261 during the year ended March 31, 2014. Asset impairment charges of $756 were recorded for certain processing equipment in connection with the new venture as of March 31, 2014. As the Company continued to respond to changes in its business, additional employee separation charges of $791 and asset impairment charges of $819 were incurred during the year ended March 31, 2014.

The following table summarizes the restructuring actions as of March 31, 2016, 2015 and 2014:

	Years Ended March 31,		
Restructuring and Asset Impairment Charges	2016	2015	2014
Employee separation and other cash charges:			
Beginning balance	$8,087	$397	$668
Period Charges:			
Employee separation charges (recoveries)	(498)	8,612	2,275
Other cash charges	662	6	—
Total employee separation and other cash charges	164	8,618	2,275
Payments	(7,853)	(928)	(2,546)
Ending balance March 31	$398	$8,087	$397
Asset impairment and other non-cash charges	5,724	500	2,836
Total restructuring and asset impairment charges	$5,888	$9,118	$5,111

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 4 – Restructuring and Asset Impairment Charges (continued)

The following table summarizes the employee separation and other cash charges recorded in the Company's North America and Other Regions segments as of March 31, 2016, 2015 and 2014:

	Years Ended March 31,		
Employee Separation and Other Cash Charges	2016	2015	2014
Beginning balance:	$8,087	$397	$668
North America	—	—	8
Other regions	8,087	397	660
Period charges:	$164	$8,618	$2,275
North America	—	—	147
Other regions	164	8,618	2,128
Payments:	$(7,853)	$(928)	$(2,546)
North America	—	—	(155)
Other regions	(7,853)	(928)	(2,391)
Ending balance March 31:	$398	$8,087	$397
North America	—	—	—
Other regions	398	8,087	397

The following table summarizes non-cash charges for the Company's North America and Other Regions segments for fiscal years ended March 31, 2016, 2015 and 2014:

	North America	Other Regions
Years ended March 31,		
2016	712	5,012
2015	500	
2014		2,836

Note 5 – Goodwill and Other Intangibles

The Company tests the carrying amount of goodwill annually as of the first day of the last quarter of the fiscal year and whenever events or circumstances indicate that impairment may have occurred. The Company evaluated its goodwill for impairment during fiscal 2016, 2015 and 2014 and determined that the fair value of each reporting unit is substantially in excess of its carrying value including goodwill.

The carrying value of other intangible assets as of March 31, 2016 represents customer relationship, production and supply contracts and internally developed software. These intangible assets were determined by management to meet the criterion for recognition apart from goodwill and have finite lives. The Company uses judgment in assessing whether the carrying amount of its intangible assets is not expected to be recoverable over their estimated remaining useful lives. Amortization expense associated with these intangible assets was $3,356, $3,532 and $4,632 for the years ended March 31, 2016, 2015 and 2014, respectively and is recorded in Selling, General and Administrative Expenses except for production and supply contracts which is recorded against the associated revenues.

The Company has no intangible assets with indefinite useful lives. It does have intangible assets which are amortized. The following table summarizes the changes in the Company's goodwill and other intangibles for the years ended March 31, 2016, 2015 and 2014.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 5 – Goodwill and Other Intangibles (continued)

Goodwill and Intangible Asset Rollforward:

		Amortizable Intangibles			
	Goodwill (1)	Customer Relationship Intangible	Production and Supply Contract Intangibles	Internally Developed Software Intangible	Total
Weighted average remaining useful life in years as of March 31, 2016		13	4.75	—	
March 31, 2014 balance:					
Gross carrying amount	$ 2,794	$ 33,700	$ 14,893	$ 17,804	$ 69,191
Accumulated amortization	—	(14,954)	(4,752)	(14,760)	(34,466)
Net March 31, 2014 balance	2,794	18,746	10,141	3,044	34,725
Additions	—	—	—	698	698
Amortization expense	—	(1,685)	(1,034)	(813)	(3,532)
Net March 31, 2015 balance	2,794	17,061	9,107	2,929	31,891
Additions (2)	13,669	24,830	—	—	38,499
Amortization expense	—	(1,685)	(825)	(846)	(3,356)
Net March 31, 2016 balance	$ 16,463	$ 40,206	$ 8,282	$ 2,083	$ 67,034

(1) Goodwill of $2,794 relates to the North America segment and $13,669 relates to the Other Regions segment.
(2) Additions relate to the reconsolidation of MTC. See Note 22 "Reconsolidation of MTC" to the "Notes to Consolidated Financial Statements" for further information.

The following table summarizes the estimated intangible asset amortization expense for the next five years and beyond:

For Fiscal Years Ended	Customer Relationship Intangible	Production and Supply Contract Intangible	Internally Developed Software Intangible *	Total
2017	$ 3,340	$ 1,282	$ 848	$ 5,470
2018	3,340	1,405	620	5,365
2019	3,340	1,405	367	5,112
2020	3,340	1,397	248	4,985
2021	3,340	1,397	—	4,737
Later	23,506	1,396	—	24,902
	$ 40,206	$ 8,282	$ 2,083	$ 50,571

* Estimated amortization expense for the internally developed software is based on costs accumulated as of March 31, 2016.
These estimates will change as new costs are incurred and until the software is placed into service in all locations.

Note 6 – Derivative and Other Financial Instruments

Fair Value of Derivative Financial Instruments

The Company recognizes all derivative financial instruments, such as foreign exchange contracts at fair value. Changes in the fair value of derivative financial instruments are either recognized periodically in income or in shareholders' equity as a component of other comprehensive income depending on whether the derivative financial instrument qualifies for hedge accounting, and if so, whether it qualifies as a fair value hedge or a cash flow hedge. The Company has elected not to offset fair value amounts recognized for derivative instruments with the same counterparty under a master netting agreement. See Note 18 "Fair Value Measurements" to the "Notes to Consolidated Financial Statements" for further information of fair value methodology.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 6 – Derivative and Other Financial Instruments (continued)

The following table summarizes the fair value of the Company's derivatives by type at March 31, 2016 and 2015.

	Fair Values of Derivative Instruments	
Derivatives Not Designated as Hedging Instruments Under ASC 815:	Balance Sheet Account	Fair Value
Foreign currency contracts at March 31, 2016	Current Derivative Asset	$—
Foreign currency contracts at March 31, 2015	Current Derivative Asset	$1,373

Earnings Effects of Derivatives
The Company has entered into forward or option currency contracts to protect against volatility associated with certain non-U.S. dollar denominated forecasted transactions. These contracts are for green tobacco purchases and processing costs as well as selling, general and administrative costs as the Company deems necessary. These contracts do not meet the requirements for hedge accounting treatment under generally accepted accounting principles, and as such, changes in fair value are reported in income each period.

The following table summarizes the earnings effects of derivatives in the statements of consolidated operations for the years ending March 31, 2016, 2015 and 2014.

Derivatives Not Designated as Hedging Instruments Under ASC 815:	Location of Gain (Loss) Recognized in Income (Loss)	Gain (Loss) Recognized in Income (Loss)		
		2016	2015	2014
Foreign currency contracts	Cost of Goods and Services Sold	$(2,001)	$(3,123)	$(1,468)

Credit Risk
Financial instruments, including derivatives, expose the Company to credit loss in the event of non-performance by counterparties. The Company manages its exposure to counterparty credit risk through specific minimum credit standards, diversification of counterparties, and procedures to monitor concentrations of credit risk. If a counterparty fails to meet the terms of an arrangement, the Company's exposure is limited to the net amount that would have been received, if any, over the arrangement's remaining life. The Company does not anticipate non-performance by the counterparties and no material loss would be expected from non-performance by any one of such counterparties.

Note 7 – Short-Term Borrowing Arrangements

Excluding all long-term credit agreements, the Company has lines of credit arrangements with a number of banks under which the Company may borrow up to a total of $910,131 and $795,746 at March 31, 2016 and 2015, respectively. The weighted average variable interest rate for the years ending March 31, 2016 and 2015 was 5.2% and 5.1%, respectively. At March 31, 2016 and 2015, amounts outstanding under the lines were $475,989 and $330,254, respectively. Unused lines of credit at March 31, 2016 amounted to $416,352 ($448,265 at March 31, 2015), net of $17,790 of letters of credit. Certain non-U.S. borrowings of approximately $103,366 and $61,820 have inventories of $99,442 and $56,210 as collateral at March 31, 2016 and 2015, respectively. At March 31, 2016 and 2015, respectively, $2,137 and $2,122 were held on deposit as a compensating balance.

The foregoing amounts at March 31, 2016 reflect aggregate borrowing availability, outstanding borrowings and unused borrowing availability under a short-term credit facility extended to MTC in which one of the Company’s other subsidiaries has a participation interest in the lender’s rights and obligations under the facility. At March 31, 2016, $100,000 of the aggregate borrowing availability was with respect to borrowing such other subsidiary would be required to fund under the terms of the participation interest. Aggregate outstanding borrowings attributed to outstanding borrowings by MTC funded under that facility by such other subsidiary pursuant to that participation interest are $84,258 and $15,742 of the unused borrowing availability was with respect to unused borrowing availability such other subsidiary would be required to fund under the terms of the participation interest. Because such other subsidiary’s funding is pursuant to a participation interest through a third-party lender and not a direct intercompany loan between such other subsidiary and MTC, the total amount of debt under the facility is required to be reflected as consolidated debt upon the reconsolidation of MTC. See Note 22 “Reconsolidation of MTC” to the “Notes to Consolidated Financial Statements” for further information.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 8 – Long-Term Debt

Senior Secured Credit Facility
On August 1, 2013, the agreement governing the Company's senior secured credit facility was amended and restated to provide for a senior secured revolving credit facility with a syndicate of banks of approximately $303,900, that automatically reduced to approximately $210,300 on April 15, 2014, and will mature in April 15, 2017. Borrowings under the amended and restated senior secured credit facility initially bear interest at an annual rate of LIBOR plus 3.75% and base rate plus 2.75%, as applicable, though the interest rate under the amended and restated senior secured credit facility is subject to increase or decrease according to the Company's consolidated interest coverage ratio.

Borrowings under the amended and restated senior secured credit facility are secured by a first priority lien on specified property of the Company, including the capital stock of specified subsidiaries, all U.S. accounts receivable, certain U.S. inventory, intercompany notes evidencing loans or advances and certain U.S. fixed assets.

First amendment. On May 30, 2014, the Company entered into the First Amendment to the Amended and Restated Credit Agreement (the “First Amendment"), which amended the credit agreement (the “Credit Agreement”) governing the Company’s senior secured credit facility. The First Amendment modified the definition of Consolidated EBIT to permit add backs in connection with dispositions of, and investments in, certain subsidiaries and permitted joint ventures and certain other accounting adjustments, modified the Minimum Consolidated Interest Coverage Ratio to 1.85 to 1.00 for the period ending March 31, 2014 and 1.70 to 1.00 for the periods ending June 30, 2014, September 30, 2014, December 31, 2014 and March 31, 2015, modified the Maximum Consolidated Leverage Ratio to 7.25 to 1.00 for the period ending June 30, 2014 and 7.50 to 1.00 for the period ending September 30, 2014 and increased the basket to $200,000 for permitted Guaranty Obligations that can be incurred by the Company and its subsidiaries with respect to indebtedness of China Brasil Tabacos Exportadora Ltda. (which is the joint venture entity with China Tobacco in Brazil) while striking the requirement that such Guaranty Obligations of the Company and its subsidiaries may not exceed the percentage of the Company’s direct or indirect ownership of China Brasil Tabacos Exportadora Ltda. in relation to all Guaranty Obligations with respect to Indebtedness of China Brasil Tabacos Exportadora Ltda.

Second amendment. On February 6, 2015, the Company entered into the Second Amendment to Amended and Restated Credit Agreement (the “Second Amendment"), which amended the Credit Agreement. The Second Amendment modified the Minimum Consolidated Interest Coverage Ratio (as defined in the Credit Agreement) to 1.50 to 1.00 for the period ended December 31, 2014 and the period ended March 31, 2015 and modified the Maximum Consolidated Leverage Ratio (as defined in the Credit Agreement) to 7.90 to 1.00 for the period ended December 31, 2014.

Third amendment. On June 2, 2015, the Company entered into the Third Amendment to the Amended and Restated Credit Agreement (the “Third Amendment"), which amended the Credit Agreement. The Third Amendment modified the definition of Consolidated EBIT to permit add backs for specified periods for reserves taken with respect to receivables, restructuring charges and adjustments for applying the rule of lower of cost or market to inventories, modified the Minimum Consolidated Interest Coverage Ratio to 1.60 to 1.00 for the periods ending June 30, 2015 and September 30, 2015, 1.65 to 1.00 for the period ending December 31, 2015 and 1.70 to 1.00 for the period ending March 31, 2016, modified the Maximum Consolidated Leverage Ratio to 7.60 to 1.00 for the periods ending June 30, 2015 and September 30, 2015 and 7.15 to 1.00 for the period ending December 31, 2015, modified the restricted payments covenant to permit repayment of the Company’s Senior Secured Second Lien Notes by up to $50,000 in any fiscal year, with carry forward of any unused amount into the next fiscal year, modified a covenant to provide a

90-day cure period if Uncommitted Inventories (as defined in the Credit Agreement) exceed the threshold of $250,000, but only to the extent that they do not exceed $285,000, and provides for first-lien mortgages on the Company’s facilities located in Farmville, King and Wilson, North Carolina.

Fourth amendment. On May 20, 2016, the Company entered into the Fourth Amendment to the Amended and Restated Credit Agreement (the “Fourth Amendment"), which amended the Credit Agreement. See Note 21 "Subsequent Events" to the Notes to Consolidated Financial Statements.

Fifth amendment. On July 6, 2016, the Company entered into the Fifth Amendment to the Amended and Restated Credit Agreement (the “Fifth Amendment"), which amended the Credit Agreement. See Note 21 "Subsequent Events" to the Notes to Consolidated Financial Statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 8 – Long-Term Debt (continued)

Senior Secured Credit Facility (continued)

Financial covenants. After giving effect to the First Amendment, the Second Amendment, the Third Amendment, the Fourth Amendment and the Fifth Amendment to the Amended and Restated Credit Agreement, the financial covenants and required financial ratios at March 31, 2016 are as follows:

• a minimum consolidated interest coverage ratio of not less than 1.70 to 1.00 for the fiscal quarter ended March 31, 2016 (1.90 to 1.00 for the fiscal quarters ending June 30, 2016, September 30, 2016 and December 31, 2016 and 1.65 to 1.00 for the fiscal quarter ending March 31, 2017);
• a maximum consolidated leverage ratio specified for each fiscal quarter, which ratio is 5.50 to 1.00 for the fiscal quarter ended March 31, 2016 (6.25 to 1.00 for the fiscal quarter ending June 30, 2016, 6.45 to 1.00 for the fiscal quarter ended September 30, 2016, 6.25 to 1.00 for the fiscal quarter ending December 31, 2016, and 5.50 to 1.00 for the fiscal quarter ending March 31, 2017);
• a maximum consolidated total senior debt to working capital ratio of not more than 0.80 to 1.00 other than during periods in which the consolidated leverage ratio is less than 4.00 to 1.00 if the consolidated leverage ratio has been less than 4.00 to 1.00 for the prior two consecutive fiscal quarters; and
• a maximum amount of the Company's annual capital expenditures of $52,482 during the fiscal year ending March 31, 2016 and $40,000 during any fiscal year thereafter, in each case with a one-year carry-forward (not in excess of $40,000) for unused capital expenditures in any fiscal year below the maximum amount.

Certain of these financial covenants are calculated on a rolling twelve-month basis and certain of these financial covenants and required financial ratios adjust over time in accordance with schedules in the agreement governing the senior secured credit facility. The Company continuously monitors compliance with debt covenants. At March 31, 2016 and during the fiscal year, the Company was in compliance with the financial covenants under the Fourth Amendment to the senior secured credit facility agreement. While the Company anticipates it will be in compliance in fiscal 2017, unanticipated changes in market conditions or other factors could adversely affect the Company’s business and future debt covenant compliance thereunder. In such a circumstance, the Company may not be able to maintain compliance with the covenants, which would cause a default under the credit facility. A default, if not waived and/or amended, would prevent us from taking certain actions, such as incurring additional debt, paying dividends, or redeeming senior notes or subordinated debt. A default also could result in a default or acceleration of our other indebtedness with cross-default provisions.

If the Company were unable to maintain compliance with the financial covenants in the senior secured credit facility agreement, it would seek modification to the then existing agreement to further amend covenants and extend maturities, as necessary. If the Company were unable to obtain such modification, it could potentially decide to pay off the credit facility and terminate the agreement. In such case, the liquidity provided by the agreement would not be available in the future; however, the Company believes it has sufficient liquidity from operations and other available funding sources to meet future operating, debt service and capital expenditure requirements for the next twelve months. Further, as noted above, the Company's U.S. revolver matures April 15, 2017 and the Company plans to either extend or refinance this facility during fiscal year 2017. The inability to extend or refinance its U.S. revolver could impact its ability to meet its future liquidity requirements.

Affirmative and restrictive covenants. The agreement governing the senior secured credit facility contains affirmative and negative covenants (subject, in each case, to exceptions and qualifications), including covenants that limit the Company's ability to, among other things, incur additional indebtedness, incur certain guarantees, merge, consolidate or dispose of substantially all of its assets, grant liens on its assets, pay dividends, redeem stock or make other distributions or restricted payments, create certain dividend and payment restrictions on its subsidiaries, repurchase or redeem capital stock or prepay subordinated debt, make certain investments, agree to restrictions on the payment of dividends to it by its subsidiaries, sell or otherwise dispose of assets, including equity interests of its subsidiaries, enter into transactions with its affiliates, and enter into certain sale and leaseback transactions.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 8 - Long-Term Debt (continued)

Senior Secured Second Lien Notes
On August 1, 2013, the Company issued $735,000 in aggregate principal amount of the Second Lien Notes. The Second Lien Notes were sold at 98% of the face value, for gross proceeds of approximately $720,300. The Second Lien Notes bear interest at a rate of 9.875% per year, payable semi-annually in arrears in cash on January 15 and July 15 of each year, beginning January 15, 2014, to holders of record at the close of business on the preceding January 1 and July 1, respectively. The Second Lien Notes will mature on July 15, 2021. The Second Lien Notes are secured by a second priority lien on specified property of Alliance One International, Inc. for which the amended and restated senior secured credit facility is secured by a first priority lien. The indenture governing the Second Lien Notes restricts (subject to exceptions and qualifications) the Company's ability and the ability of its restricted subsidiaries to, among other things, incur additional indebtedness or issue disqualified stock or preferred stock, pay dividends and make other restricted payments (including restricted investments), sell assets, create liens, consolidate, merge, sell or otherwise dispose of all or substantially all of its assets, enter into transactions with its affiliates, enter into certain sale and leaseback transactions, create certain dividend and payment restrictions on its restricted subsidiaries, and designate its subsidiaries as unrestricted subsidiaries.

The indenture governing the Second Lien Notes requires the Company's existing and future material domestic subsidiaries to guarantee the Second Lien Notes. The Company has no material domestic subsidiaries, and the Second Lien Notes are not presently guaranteed by any subsidiary. If a change of control (as defined in the indenture governing the Second Lien Notes) occurs at any time, holders of the Second Lien Notes will have the right, at their option, to require the Company to repurchase all or a portion of the Second Lien Notes for cash at a price equal to 101% of the principal amount of Second Lien Notes being repurchased, plus accrued and unpaid interest and special interest, if any, to, but excluding, the date of repurchase. In connection with the issuance of the Second Lien Notes, the Company entered into a registration rights agreement that requires the Company to pay additional special interest on the Second Lien Notes, at increasing annual rates up to a maximum of 1.0% per year, if the Company fails to timely comply with its registration obligations thereunder. Pursuant to the registration rights agreement, on December 20, 2013, the Company completed a registered exchange offer in which it offered to exchange for the outstanding Second Lien Notes an equal amount of new Second Lien Notes having identical terms in all material respects. During the year ended March 31, 2015, the Company purchased $15,000 of its senior notes on the open market. All purchased securities were canceled leaving $720,000 of the 9.875% senior notes outstanding at March 31, 2015. Associated costs paid were $38 and related discounts were $(1,323) resulting in net cash repayment of $13,715 and recorded in Repayment of Long-Term Borrowings in the Consolidated Statements of Cash Flows. Deferred financing costs and amortization of original issue discount of $514 were accelerated.

Foreign Seasonal Lines of Credit
The Company has typically financed its non-U.S. operations with uncommitted unsecured short-term seasonal lines of credit at the local level. These operating lines are seasonal in nature, normally extending for a term of 180 to 270 days corresponding to the tobacco crop cycle in that location. These facilities are typically uncommitted in that the lenders have the right to cease making loans and demand repayment of loans at any time. These loans are typically renewed at the outset of each tobacco season. As of March 31, 2016, the Company had approximately $475,989 drawn and outstanding on foreign seasonal lines with maximum capacity totaling $910,131 subject to limitations as provided for in the Credit Agreement. Additionally, against these lines there was $13,057 available in unused letter of credit capacity with $4,733 issued but unfunded.

Long-Term Foreign Seasonal Borrowings

The Company had foreign seasonal borrowings with original maturities greater than one year. At March 31, 2016, approximately $10,000 was drawn and outstanding with maximum capacity totaling $10,000.

Dividends

The senior secured credit facility restricts the Company from paying any dividends during the remaining term of the facility. In addition, the indenture governing the Second Lien Notes contains similar restrictions and also prohibits the payment of dividends and other distributions if the Company fails to satisfy a ratio of consolidated EBITDA to fixed charges of at least 2.0 to 1.0. At March 31, 2016, the Company did not satisfy this fixed charge coverage ratio. The Company may from time to time not satisfy this ratio.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 8 - Long-Term Debt (continued)

Summary of Debt
Certain debt agreements contain cross-default or cross-acceleration provisions. The following table summarizes the Company’s debt financing as of March 31, 2016:

	Outstanding		March 31, 2016 Lines and		Long Term Debt Repayment Schedule by Fiscal Year					
	March 31, 2015	March 31, 2016	Letters Available	Interest Rate	2017	2018	2019	2020	2021	Later
Senior secured credit facility:										
Revolver [1]	$—	$200,000	$10,259	5.4 % [2]	$—	$200,000	$—	$—	$—	$—
Senior notes:										
9.875% senior secured second lien notes due 2021 [4]	707,732	709,196	—	9.9 %	—	—	—	—	—	709,196
Long-term foreign seasonal borrowings	30,000	10,000	—	3.8 % [2]	—	10,000	—	—	—	—
Other long-term debt	4,105	1,249		7.2 % [2]	356	249	100	342	100	102
Notes payable to banks [3]	330,254	475,989	416,352	5.2 % [2]	475,989	—	—	—	—	—
Total debt	$1,072,091	$1,396,434	426,611		$476,345	$210,249	$100	$342	$100	$709,298
Short term [3]	$330,254	$475,989								
Long term:										
Long term debt current	$2,894	$356								
Long term debt	738,943	920,089								
	$741,837	$920,445								
Letters of credit	$6,328	$4,733	13,057							
Total credit available			$439,668							

(1) As of March 31, 2016, pursuant to Section 2.1 (A) (iv) of the Credit Agreement, the full $210,259 Revolving Committed Amount was available based on the calculation of the lesser of the Revolving Committed Amount and the Working Capital Amount.
(2) Weighted average rate for the twelve months ended March 31, 2016.
(3) Primarily foreign seasonal lines of credit. At March 31, 2016, the outstanding amount includes $130,600 of debt owed by MTC under a short-term credit facility in which one of the Company’s other subsidiaries has a participation interest in the lender’s rights and obligations under the facility. At March 31, 2016, $84,258 of that amount was attributed to outstanding borrowings by MTC funded under that facility by such other subsidiary pursuant to that participation interest. Because such other subsidiary’s funding is pursuant to a participation interest through a third-party lender and not a direct intercompany loan between such other subsidiary and MTC, the total amount of debt under the facility is required to be reflected as consolidated debt upon the reconsolidation of MTC. See Note 22 “Reconsolidation of MTC” to the “Notes to Consolidated Financial Statements” for further information.
(4) Repayment of $709,196 is net of original issue discount of $10,804. Total repayment will be $720,000.

Note 9 - Long-Term Leases

The Company has operating leases for land, buildings, automobiles and other equipment. Rent expense for all operating leases was $22,989, $22,622 and $23,313 for the years ended March 31, 2016, 2015 and 2014, respectively. Minimum future obligations are as follows:

	Operating Leases
2017	$ 16,875
2018	11,427
2019	9,008
2020	4,645
2021	3,125
Remaining	1,543
	$ 46,623

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 10 – Equity in Net Assets of Investee Companies

The Company has equity method investments in companies located in Asia which purchase and process tobacco. The Asia investees and ownership percentages are as follows: Alliance One Industries India Private Ltd. (India) 49%, Siam Tobacco Export Company (Thailand) 49%, and Adams International Ltd. (Thailand) 49%. On March 10, 2014, the Company purchased a 50% equity based interest in Oryantal Tutun Paketleme which processes tobacco in Turkey. On March 26, 2014, the Company completed the formation of a new joint venture in Brazil with the disposition of 51% interest in China Brasil Tobacos Exportadora SA ("CBT"). The Company retained a 49% equity based interest in CBT which purchases and processes tobacco. Upon the disposition of 51% interest in CBT, the difference between the book basis of the Company's 49% interest and the fair value of the investment recorded created a basis difference of $15,990. The Company evaluated the contributed assets and identified basis differences in certain accounts, including inventory, intangible assets and deferred taxes. The basis differences are being amortized over the respective estimated lives of these assets and liabilities, which range from one to ten years. For the year ended March 31, 2016, the Company's earnings from the equity method investment were reduced by amortization expense of $1,554 related to these basis differences. At March 31, 2016, the basis difference was $11,622. On April 2, 2014 the Company completed the purchase of a 50% interest in Purilum, LLC, a U.S. company that develops, produces and sells consumable e-liquids to manufacturers and distributors of e-vapor products. Summarized combined financial information for these investees for fiscal years ended March 31, 2016, 2015 and 2014 follows:

	Years Ended March 31,		
Operations Statement Information	2016	2015	2014
Sales	$274,183	$297,474	$115,059
Gross profit	42,143	33,246	10,556
Net income	15,254	11,394	122
Company's dividends received	1,887	—	843

	March 31,	
Balance Sheet Information	2016	2015
Current assets	$118,745	$158,856
Property, plant and equipment and other assets	61,845	63,385
Current liabilities	77,908	127,793
Long-term obligations and other liabilities	10,222	12,315

Note 11 – Stock–Based Compensation

The Company expenses the fair value of grants of various stock-based compensation programs over the vesting period of the awards. Awards granted are recognized as compensation expense based on the grant-date fair value estimated in accordance with generally accepted accounting principles.

The table below summarizes certain data for the Company's stock-based compensation plans:

	Year Ended March 31,		
	2016	2015	2014
Compensation expense for all stock based compensation plans	$2,874	$3,194	$3,222
Tax (expense) benefits for stock-based compensation	$—	$—	$—
Fair value of stock options vested	$2,043	$3,353	$2,184

The Company's shareholders approved the 2007 Incentive Plan (the "2007 Plan") at its Annual Meeting of Shareholders on August 16, 2007 and amended the plan at its Annual Meeting of Shareholders on August 11, 2011 and August 6, 2009. The 2007 Plan is an omnibus plan that provides the flexibility to grant a variety of equity awards including stock options, stock appreciation rights, stock awards, stock units, performance awards and incentive awards to officers, directors and employees of the Company. A maximum of 1,390 shares may be issued under the plan as amended. However, the August 11, 2011 amendment requires that the shares available for grant be reduced by twice the number of shares issued for any awards other than options or stock appreciation rights. This has resulted in decreasing the shares available to grant by 288. Additionally, shares that are settled in cash, and shares

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 11 - Stock-Based Compensation (continued)

Stock Option Awards (continued)

underlying substitute awards, do not reduce the number of shares available for award. The total of such shares is 85. As of March 31, 2016, 1,903 equity awards have been granted, 886 equity awards have been cancelled and 342 vested under the 2007 Plan, leaving 171 shares available for future awards under the 2007 Plan. Total equity awards outstanding are 683 inclusive of 674 awards granted and outstanding under the 2007 plan and 8 awards granted under prior plans. Shares issued under both the 2007 plan and earlier plans are new shares which have been authorized and designated for award under the plans. Individual types of awards are discussed in greater detail below.

Stock Option Awards
Stock options allow for the purchase of common stock at a price determined at the time the option is granted. Stock options generally vest ratably over five years and generally expire after ten years. The fair value of these options is determined at grant date using the Black-Scholes valuation model and includes estimates of forfeiture based on historical experience. The fair value is then recognized as compensation expense ratably over the vesting term of the options. No stock options were granted during 2016, 2015 and 2014.

A summary of option activity for stock options follows:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at March 31, 2013	701	$ 60.49		
Granted	—	—		
Forfeited	(3)	57.12		
Expired	(10)	64.41		
Outstanding at March 31, 2014	688	60.45		
Forfeited	(18)	61.49		
Expired	(9)	64.50		
Outstanding at March 31, 2015	661	60.37		
Forfeited	(9)	66.21		
Expired	(182)	59.23		
Outstanding at March 31, 2016	470	60.70	5.18	$ —
Vested and expected to vest at March 31, 2016	469	60.70	5.18	$ —
Exercisable at March 31, 2016	433	60.76	5.11	$ —

The intrinsic values in the table above represent the total pre-tax intrinsic value which is the difference between the Company's closing stock price and the exercise price multiplied by the number of options. The expense related to stock option awards for 2016, 2015, and 2014 was $1,097, $1,363, and $1,366, respectively. There were no options exercised in 2016, 2015 and 2014.

The table below shows the movement in unvested options from March 31, 2015 to March 31, 2016.

	Shares	Weighted Average Grant Date Fair Value	Aggregate Grant Date Fair Value
Unvested March 31, 2015	166	$ 16.49	$ 2,732
Forfeited	(5)	17.78	(91)
Vested	(123)	16.65	(2,042)
Unvested March 31, 2016	38	15.80	$ 599

As of March 31, 2016, there is $463 of unearned compensation, net of expected forfeitures, related to stock option awards which will vest over a weighted average remaining life of 1.0 year.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 11 - Stock-Based Compensation (continued)

Restricted Stock
Restricted stock is common stock that is both nontransferable and forfeitable unless and until certain conditions are satisfied. The fair value of restricted shares is determined on grant date and is amortized over the vesting period which is generally three years.

Restricted Stock	Shares		Weighted Average Grant Date Fair Value
Restricted at March 31, 2013	17	$	28.90
Granted	20		38.00
Vested	(17)		28.90
Restricted at March 31, 2014	20		38.00
Granted	27		16.12
Vested	(47)		25.39
Restricted at March 31, 2015	—		—
Granted	23		18.42
Vested	(23)		18.42
Restricted at March 31, 2016	—		—

As of March 31, 2016, there was no remaining unamortized deferred compensation. Expense recognized due to the vesting of restricted stock awards was $417, $701 and $658 for the years ended March 31, 2016, 2015 and 2014, respectively.

Restricted Stock Units
Restricted stock units differ from restricted stock in that zero shares are issued until restrictions lapse. Certain restricted stock units vest ratably over a three-year period and others vest 50% in the first year and 25% in each of the second and third years. The fair value of the restricted stock units is determined on the grant date and is amortized over the vesting period.

Restricted Stock Units	Shares	Weighted Average Grant Date Fair Value
Outstanding at March 31, 2013	43	$45.59
Granted	64	38.50
Vested	(42)	45.59
Forfeited	(2)	38.50
Outstanding at March 31, 2014	63	38.50
Granted	22	27.20
Vested	(21)	38.50
Forfeited	(6)	38.50
Outstanding at March 31, 2015	58	34.18
Granted	58	14.73

Vested	(25)	35.16
Forfeited	(2)	38.50
Outstanding at March 31, 2016	89	21.28

As of March 31, 2016, there was $666 of remaining unamortized deferred compensation associated with these restricted stock units that will be expensed over the remaining service period through February 23, 2019. Expense recognized due to the vesting of these awards was $1,113, $859 and $1,100 during the years ended March 31, 2016, 2015 and 2014 respectively.

On August 13, 2015, the Company's shareholders approved an exchange offer that would allow certain employees to surrender options and receive restricted stock units in exchange for these options. The offer was made on September 14, 2015 and applied only to grants made during years 2012 and 2013 that had an exercise price of $60.00 following the reverse stock split on June 26, 2015. The exchange offer was consummated as of October 13, 2015 with no changes in the timing or material amount of expense recognized for stock based compensation.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 11 - Stock-Based Compensation (continued)

Performance-Based Restricted Stock Units
Performance-based restricted stock units may vest at the end of either a two- or three-year performance period but the level of the awards to be earned at the end of the performance period is contingent upon attainment of specific business performance goals. If certain minimum performance levels are not attained, no compensation will be earned. The awards are variable in that compensation could range from zero to 200% of the plan's target contingent on the performance level attained. The table below includes the maximum number of restricted stock units that may be earned under the plan.

Performance-Based Restricted Stock Units	Shares	Weighted Average Grant Date Fair Value
Outstanding as of March 31, 2013	—	$—
Granted	64	38.50
Forfeited	(2)	38.50
Outstanding as of March 31, 2014	62	38.50
Granted	22	27.20
Forfeited	(1)	38.50
Outstanding as of March 31, 2015	83	35.52
Granted	30	10.11
Forfeited	(61)	38.50
Outstanding as of March 31, 2016	52	17.33

As of March 31, 2016, the Company anticipates that no performance-based restricted stock units will vest resulting in $0 to be expensed over the remaining service life through February 23, 2019. Expense recognized due to the expected vesting of these awards were $(202), $104, and $98 during the years ended March 31, 2016, 2015 and 2014, respectively.

Cash-Settled Awards
Cash-settled awards differ from the Company's other awards in that no shares will be issued and the cumulative compensation expense is recognized as a liability rather than equity. Under both of our current Cash-Settled Awards, the fair value of the award is equal to the period-end closing price of one share. The liability recognized will be the product of the fair value multiplied ratably by the expired vesting term. The expense related to these awards is derived by appropriately adjusting the value of the liability. As a result, the expense will be variable as the value of the liability will increase or decrease subject to the period-end closing price.

Cash-Settled Restricted Stock Units
Cash-settled restricted stock units vest ratably over the first, second and third anniversaries of the date of award.

Cash-Settled Restricted Stock Units	Shares	Weighted Average Grant Date Fair Value
Outstanding as of March 31, 2015	44	27.06
Granted	1	19.65
Vested	(14)	27.06
Forfeited	(2)	27.20

Outstanding as of March 31, 2016	29	26.85

As of March 31, 2016, there was $323 of remaining unamortized deferred compensation associated with these restricted stock units that will be expensed over the remaining service period through October 13, 2018. Expense recognized due to the vesting of these awards was $488 and $128 during the years ended March 31, 2016 and 2015, respectively. There was no expense recognized in the year ending March 31, 2014.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 11 - Stock-Based Compensation (continued)

Cash-Settled Performance-Based Restricted Stock Units
Cash-settled restricted stock units vest at the end of a three year performance period but the level of the award to vest is subject to similar performance criteria as the Performance-Based Restricted Stock Units described above. The awards are also variable in that they range from zero to 200% of the plan's target contingent on the performance level attained. The table below includes the maximum number of restricted stock units that may be earned under the plan.

Cash-Settled Performance-Based Restricted Stock Units	Shares	Weighted Average Grant Date Fair Value
Outstanding as of March 31, 2015	44	27.06
Granted	—	—
Forfeited	(2)	27.20
Outstanding as of March 31, 2016	42	27.10

As of March 31, 2016, the Company anticipates that no performance-based restricted stock units will vest resulting in $0 to be expensed over the remaining service period through June 16, 2017. Expense recognized due to the expected vesting of these awards was $(39) and $39 during the years ended March 31, 2016 and 2015. There was no expense recognized for the year ending March 31, 2014.

Note 12 – Income Taxes

Accounting for Uncertainty in Income Taxes
As of March 31, 2016, 2015 and 2014, the Company's unrecognized tax benefits totaled $16,675, $17,752 and $12,635, respectively, of which $7,701 would impact the Company's effective tax rate if recognized. The following table presents the changes to unrecognized tax benefits during the years ended March 31, 2016, 2015 and 2014:

	2016	2015	2014
Balance at April 1	$17,752	$12,635	$8,678
Increase for current year tax positions	24	7,260	4,191
Reduction for prior year tax positions	(223)	(1,055)	(111)
Impact of changes in exchange rates	(878)	(1,088)	(123)
Reduction for settlements	—	—	—
Balance at March 31	$16,675	$17,752	$12,635

The Company recognizes interest and penalties related to unrecognized tax benefits in income tax expense. During the years ended March 31, 2016 and 2015, the Company accrued (reduced) interest, penalties and related exchange losses related to unrecognized tax benefits by $(224) and $109, respectively. As of March 31, 2016, accrued interest and penalties totaled $1,315 and $793, respectively. During the year ending March 31, 2016, the Company reduced its accrued interest and penalties for $387 related to the expiration of statute of limitations. As of March 31, 2015, accrued interest and penalties totaled $1,276 and $1,056, respectively.

During the fiscal year ending March 31, 2016, the Company's total liability for unrecognized tax benefits, including the related interest and penalties, decreased from $20,085 to $18,784. The change in the liability for unrecognized tax benefits relates to expiration of statute of limitations of approximately $688, decreases related to current period activity of approximately $613.

The Company expects to continue accruing interest expenses related to the remaining unrecognized tax benefits. Additionally, the Company may be subject to fluctuations in the unrecognized tax liability due to currency exchange rate movements.

It is reasonably possible that the Company's unrecognized tax benefits may decrease in the next twelve months by $333 due to the expiration of the statute of limitations but the Company must acknowledge circumstances can change due to unexpected developments in the law. In certain jurisdictions, tax authorities have challenged positions that the Company has taken that resulted in recognizing benefits that are material to its financial statements. The Company believes it is more likely than not that it will prevail in these situations and accordingly have not recorded liabilities for these positions. The Company expects the challenged positions to be settled at a time greater than twelve months from its balance sheet date.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 12 – Income Taxes (continued)

Accounting for Uncertainty in Income Taxes (continued)
The Company and its subsidiaries file a U.S. federal consolidated income tax return as well as returns in several U.S. states and a number of foreign jurisdictions. As of March 31, 2016, the Company's earliest open tax year for U.S. federal income tax purposes was its fiscal year ended March 31, 2013; however, the Company's net operating loss carryovers from prior periods remain subject to adjustment. Open tax years in state and foreign jurisdictions generally range from three to six years.

Income Tax Provision
The components of income (loss) before income taxes, equity in net income of investee companies and minority interests consisted of the following:

	Years Ended March 31,		
	2016	2015	2014
U.S.	$(55,073)	$(24,749)	$(91,290)
Non-U.S.	146,747	15,810	29,595
Total	$91,674	$(8,939)	$(61,695)

The details of the amount shown for income taxes in the Consolidated Statements of Operations follow:

	Years Ended March 31,		
	2016	2015	2014
Current			
Federal	$—	$—	$—
State	—	—	—
Non-U.S.	26,476	19,850	24,980
	$26,476	$19,850	$24,980
Deferred			
Federal	$—	$—	$—
State	—	—	—
Non-U.S.	5,739	2,068	16,261
	$5,739	$2,068	$16,261
Total	$32,215	$21,918	$41,241

The reasons for the difference between income tax expense based on income before income taxes, equity in net income of investee companies and minority interests and the amount computed by applying the U.S. statutory federal income tax rate to such income are as follows:

	Years Ended March 31,		
	2016	2015	2014
Tax expense at U.S. statutory rate	$32,086	$(3,129)	$(21,594)
Effect of non-U.S. income taxes	(15,131)	647	7,377
U.S. taxes on non-U.S. income	23,734	14,768	(274)

Foreign tax credits expiration	47,552	—	—
Change in valuation allowance	(47,135)	(14,908)	25,080
Increase (decrease) in reserves for uncertain tax positions	(1,203)	5,227	3,971
Change in tax rates	2,480	—	—
Exchange effects and currency translation	15,492	14,308	26,884
Permanent items	891	5,005	(203)
Nontaxable gain - Zimbabwe subsidiary reconsolidation	(26,551)	—	—
Actual tax expense	$32,215	$21,918	$41,241

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 12 - Income Taxes (continued)

Income Tax Provision (continued)

The deferred tax liabilities (assets) are comprised of the following:

	March 31, 2016	March 31, 2015
Deferred tax liabilities:		
Unremitted earnings of foreign subsidiaries	$27,641	$22,043
Intangible assets	9,334	6,415
Fixed assets	11,435	3,488
Total deferred tax liabilities	$48,410	$31,946
Deferred tax assets:		
Reserves and accruals	$(23,870)	$(29,610)
Tax credits	(8,191)	(55,744)
Tax loss carryforwards	(104,337)	(105,345)
Derivative transactions	(892)	(567)
Postretirement and other benefits	(30,635)	(34,388)
Unrealized exchange loss	(12,645)	(10,057)
Other	(8,207)	(4,926)
Gross deferred tax assets	(188,777)	(240,637)
Valuation allowance	118,518	169,804
Total deferred tax assets	$(70,259)	$(70,833)
Net deferred tax asset	$(21,849)	$(38,887)

The following table presents the breakdown between current and non-current (assets) liabilities:

	March 31, 2016	March 31, 2015
Current asset	$—	$(15,586)
Current liability	—	6,356
Non-current asset	(38,773)	(32,111)
Non-current liability	16,924	2,454
Net deferred tax asset	$(21,849)	$(38,887)

In November 2015, new accounting guidance was issued requiring all deferred tax assets and liabilities, and any related valuation allowance, to be classified as noncurrent on the balance sheet which eliminates the need to separately identify the net current and net noncurrent deferred tax assets or liabilities in each jurisdiction including valuation allowances. The Company adopted this guidance prospectively at March 31, 2016 and therefore March 31, 2015 balances were not adjusted.

During the year ended March 31, 2016, the net deferred tax asset balance decreased by $11,363 for certain adjustments not included in the deferred tax expense (benefit), primarily for deferred tax assets related to pension accruals recorded in equity as part of Other Comprehensive Income (Loss), currency translation adjustments and the reconsolidation the Zimbabwe subsidiary.

For the year ended March 31, 2016, the valuation allowance decreased by $51,286 which is inclusive of $3,370 related to adjustments in other comprehensive income and $813 related primarily to currency translation adjustments. The valuation allowance decreased primarily due to the accrual of a deferred liability on unremitted foreign earnings and the accrual of an additional liability for unrecognized tax benefits netted against tax loss carryovers. The valuation allowance is based on the Company's assessment that it is more likely than not that certain deferred tax assets, primarily foreign tax credits and net operating loss carryovers, will not be realized in the foreseeable future. Recent years' cumulative losses incurred in the United States as of March 31, 2016, combined with the effects of certain changes in the market, provide significant objective negative evidence in the evaluation of whether the U.S. entity will generate sufficient taxable income to realize the tax benefits of the deferred tax assets. This negative evidence carries greater weight than the more subjective positive evidence of favorable future projected income in the assessment of whether realization of the tax benefits of the deferred tax assets is more likely than not. Therefore, based on the

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 12 - Income Taxes (continued)

Income Tax Provision (continued)
weight of presently objectively verifiable positive and negative evidence, it is management's judgment that realization of the tax benefits of the deferred tax assets is less than more likely than not.

At March 31, 2016, the Company has U.S federal tax loss carryovers of $260,312, non-U.S. tax loss carryovers of $67,347, and U.S. state tax loss carryovers of $373,798. The U.S. federal tax loss carryovers will expire in 2030 and thereafter. Of the non-U.S. tax loss carryovers, $39,863 will expire within the next 5 years, $22,873 will expire in later years, and $4,612 can be carried forward indefinitely. Of the U.S. state tax loss carryovers, $69,174 will expire within the next five years and $304,624 will expire thereafter. At March 31, 2016, the Company has foreign tax credit carryovers in the United States of $4,379, of which $1,634 will expire within the next five years.

Realization of deferred tax assets is dependent on generating sufficient taxable income prior to expiration of the loss carryovers. Although realization is not assured, management believes it is more likely than not that all of the deferred tax assets, net of applicable valuation allowances, will be realized. The amount of the deferred tax assets considered realizable could be reduced or increased if estimates of future taxable income change during the carryover period.

A provision of $27,641 has been made for U.S. on foreign taxes that may result from future remittances of foreign earnings of $75,568. No provision has been made for U.S. or foreign taxes that may result from future remittances of approximately $334,445 at March 31, 2016 and $409,505 at March 31, 2015 of undistributed earnings of foreign subsidiaries because management expects that such earnings will be reinvested overseas indefinitely. Determination of the amount of any unrecognized deferred income tax liability on these unremitted earnings is not practicable.

Note 13 – Employee Benefits

Retirement Benefits
The Company has multiple benefit plans at several locations. The Company has a defined benefit plan that provides retirement benefits for substantially all U.S. salaried personnel based on years of service rendered, age and compensation. The Company also maintains various other Excess Benefit and Supplemental Plans that provide additional benefits to (1) certain individuals whose compensation and the resulting benefits that would have actually been paid are limited by regulations imposed by the Internal Revenue Code and (2) certain individuals in key positions. In addition, a Supplemental Retirement Account Plan ("SRAP"), a defined contribution program, is maintained.

The Company's policy is to contribute amounts to the plans sufficient to meet or exceed funding requirements of local governmental rules and regulations.

Additional non-U.S. plans sponsored by certain subsidiaries cover substantially all of the full-time employees located in Germany, Turkey and the United Kingdom.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 13 - Employee Benefits (continued)

Retirement Benefits (continued)
In fiscal 2014, the Company experienced a special termination benefit and curtailment loss of $1,261 during the quarter ended June 30, 2013 in connection with restructuring in its Turkey location, which has been recorded in Restructuring and Asset Impairment Charges (Recoveries).
During the three months ended December 31, 2015, the Company announced that the U.S. Pension Plan would be frozen effective January 1, 2016. This change is accounted for as a curtailment and resulted in a curtailment loss of $1,062 and a reduction in the benefit obligation and accumulated other comprehensive income of $2,534 as of December 31, 2015. The curtailment loss is recorded in restructuring and asset impairment charges.

A reconciliation of benefit obligations, plan assets and funded status of the plans at March 31, 2016 and 2015, the measurement dates, is as follows:

	U.S. Plans March 31,		Non-U.S. Plans March 31,	
	2016	2015	2016	2015
Change in Benefit Obligation				
Benefit obligation, beginning	$107,423	$99,061	$69,939	$66,847
Service cost	1,434	1,856	271	173
Interest cost	3,640	3,969	2,146	2,711
Plan amendments	—	—	(4)	—
Plan curtailments	(1,963)	—	(256)	—
Actuarial losses (gains)	(3,288)	9,813	(5,025)	9,349
Settlements/special termination benefits	—	(517)	—	(136)
Transfers	—	—	—	230
Effects of currency translation	—	—	(681)	(5,985)
Benefits paid	(7,614)	(6,759)	(2,820)	(3,250)
Benefit obligation, ending	$99,632	$107,423	$63,570	$69,939
Change in Plan Assets				
Fair value of plan assets, beginning	$44,921	$44,597	$53,709	$52,133
Actual return on plan assets	(471)	1,832	(289)	5,137
Employer contributions	4,146	5,768	3,211	3,686
Plan settlements	—	(517)	—	(208)
Effects of currency translation	—	—	(1,037)	(3,789)
Benefits paid	(7,614)	(6,759)	(2,820)	(3,250)
Fair value of plan assets, ending	$40,982	$44,921	$52,774	$53,709
Net amount recognized	$(58,650)	$(62,502)	$(10,796)	$(16,230)

	U.S. Plans March 31,		Non-U.S. Plans March 31,	
	2016	2015	2016	2015
Amounts Recognized in the Consolidated Balance Sheets Consist of:				

Noncurrent benefit asset recorded in Other Noncurrent Assets	$—	$—	$2,450	$175
Accrued current benefit liability recorded in Accrued Expenses and Other Current Liabilities	(2,967)	(2,975)	(1,166)	(1,173)
Accrued noncurrent benefit liability recorded in Pension, Postretirement and Other Long-Term Liabilities	(55,683)	(59,527)	(12,080)	(15,232)
Net amount recognized	$(58,650)	$(62,502)	$(10,796)	$(16,230)

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 13 - Employee Benefits (continued)

Retirement Benefits (continued)

The pension obligations for all defined benefit pension plans:

	U.S. Plans		Non-U.S. Plans	
	March 31,		March 31,	
	2016	2015	2016	2015
Information for Pension Plans with Accumulated Benefit Obligation in Excess of Plan Assets:				
Projected benefit obligation	$99,632	$107,423	$32,683	$36,951
Accumulated benefit obligation	99,632	104,652	32,068	36,033
Fair value of plan assets	40,982	44,921	19,437	20,546

Net periodic pension costs included the following components:

	U.S. Plans			Non-U.S. Plans		
	March 31,			March 31,		
	2016	2015	2014	2016	2015	2014
Service cost	$1,434	$1,856	$1,839	$271	$173	$282
Interest cost	3,640	3,969	3,956	2,146	2,711	2,820
Expected return on plan assets	(3,070)	(3,131)	(3,078)	(3,110)	(3,477)	(3,112)
Amortization of actuarial losses	1,809	1,440	1,808	1,388	740	1,262
Amortization of prior service cost	136	192	195	1	1	5
Curtailment loss	1,062	—	—	—	—	70
Special termination benefits	—	—	—	—	72	1,226
Effects of settlement	—	35	1,049	—	(13)	—
Net periodic pension cost	$5,011	$4,361	$5,769	$696	$207	$2,553

The amounts showing in accumulated other comprehensive income at March 31, 2016, March 31, 2015 and movements for the year were as follows:

	U.S. and Non-U.S. Pension	U.S. and Non-U.S. Post-retirement	Total
Prior service credit (cost)	$(1,946)	$ 177	$(1,769)
Net actuarial losses	(56,806)	(4,803)	(61,609)
Deferred taxes	11,770	(624)	11,146
Balance at March 31, 2015	$(46,982)	$ (5,250)	$(52,232)
Prior service credit (cost)	$1,430	$ 3,556	$4,986
Net actuarial gains	6,987	785	7,772
Deferred taxes	(423)	95	(328)
Total change for 2016	$7,994	$ 4,436	$12,430

Prior service credit (cost)	$(516)	$ 3,733	$3,217
Net actuarial losses	(49,819)	(4,018)	(53,837)
Deferred taxes	11,347	(529)	10,818
Balance at March 31, 2016	$(38,988)	$ (814)	$(39,802)

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 13 - Employee Benefits (continued)

Retirement Benefits (continued)

The following weighted average assumptions were used to determine the expense for the pension, postretirement, other postemployment, and employee savings plans as follows:

	U.S. Plans			Non-U.S. Plans		
	March 31,			March 31,		
	2016	2015	2014	2016	2015	2014
Discount rate	3.60%	4.20%	3.86%	3.13%	4.30%	4.31%
Rate of increase in future compensation	4.50%	4.50%	4.00%	3.56%	3.94%	4.36%
Expected long-term rate of return on plan assets	7.25%	7.25%	7.25%	5.73%	6.83%	6.56%

In order to project the long-term investment return for the total portfolio, estimates are prepared for the total return of each major asset class over the subsequent 10-year period, or longer. Those estimates are based on a combination of factors including the current market interest rates and valuation levels, consensus earnings expectations and historical long-term risk premiums. To determine the aggregate return for the pension trust, the projected return of each individual asset class is then weighted according to the allocation to that investment area in the trust's long-term asset allocation policy.

A March 31 measurement date is used for the pension, postretirement, other postemployment and employee savings plans. The expected long-term rate of return on assets was determined based upon historical investment performance, current asset allocation, and estimates of future investment performance by asset class.

The following assumptions were used to determine the benefit obligations disclosed for the pension plans at March 31, 2016 and 2015:

	U.S. Plans		Non-U.S. Plans	
	March 31,		March 31,	
	2016	2015	2016	2015
Discount rate	3.86%	3.60%	3.38%	3.13%
Rate of increase in future compensation	Not applicable	4.50%	3.47%	3.56%

Net gain (loss) and prior service credits (costs) for the combined U.S. and non-U.S. pension plans expected to be amortized from accumulated comprehensive income into net periodic benefit cost during fiscal 2017 is $(1,187) and $(948), respectively.

Plan Assets

The Company's asset allocations and the percentage of the fair value of plan assets at March 31, 2016 and 2015 by asset category are as follows:

	Target Allocations	U.S. Plans		Non-U.S. Plans	
	March 31,	March 31,		March 31,	
(percentages)	2016	2016	2015	2016	2015
Asset Category:					
Cash and cash equivalents	— %	3.2 %	2.1 %	1.5 %	1.4 %

Equity securities	36.0 %	34.6 %	35.9 %	58.8 %	60.5 %
Debt securities	24.0 %	22.8 %	23.2 %	34.2 %	32.5 %
Real estate and other investments	40.0 %	39.4 %	38.8 %	5.5 %	5.6 %
Total	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 13 - Employee Benefits (continued)

Plan Assets (continued)

The Company's investment objectives are to generate consistent total investment return to pay anticipated plan benefits, while minimizing long-term costs. Financial objectives underlying this policy include maintaining plan contributions at a reasonable level relative to benefits provided and assuring that unfunded obligations do not grow to a level that would adversely affect the Company's financial health. Manager performance is measured against investment objectives and objective benchmarks, including: Citibank 90 Day Treasury Bill, Barclays Intermediate Govt. Credit, Barclays Aggregate Index, Russell 1000 Value, Russell 1000 Growth, Russell 2500 Value, Russell 2500 Growth, and MSCI EAFE. The Portfolio Objective is to exceed the actuarial return on assets assumption. Management regularly reviews portfolio allocations and periodically rebalances the portfolio to the targeted allocations when considered appropriate. Equity securities do not include the Company's common stock. Our diversification and risk control processes serve to minimize the concentration of risk. There are no significant concentrations of risk, in terms of sector, industry, geography or companies.

The fair values for the pension plans by asset category are as follows:

U.S. Pension Plans	March 31, 2016			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$1,326	$815	$511	$—
U.S. equities / equity funds	8,712	8,712	—	—
International equities / equity funds	5,466	5,466	—	—
U.S. fixed income funds	8,178	8,178	—	—
International fixed income funds	1,169	1,169	—	—
Other investments:				
Diversified funds	11,791	11,741	—	50
Real estate and other	4,352	—	—	4,352
Total	$40,994	$36,081	$511	$4,402

U.S. Pension Plans	March 31, 2015			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$965	$434	$531	$—
U.S. equities / equity funds	8,302	8,302	—	—
International equities / equity funds	7,769	7,769	—	—
U.S. fixed income funds	8,870	8,870	—	—
International fixed income funds	1,564	1,564	—	—
Other investments:				
Diversified funds	12,994	12,918	—	76
Real estate	4,457	—	—	4,457
Total	$44,921	$39,857	$531	$4,533

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 13 - Employee Benefits (continued)

Plan Assets (continued)

Non-U.S. Pension Plans	March 31, 2016			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$776	$776	$—	$ —
U.S. equities / equity funds	7,340	7,340	—	—
International equities / equity funds	13,615	4,335	9,280	—
Global equity funds	10,083	—	10,083	—
U.S. fixed income funds	2,829	2,829	—	—
International fixed income funds	8,415	—	8,415	—
Global fixed income funds	6,813	1,384	5,429	—
Other investments:				
Diversified funds	1,685	1,685	—	—
Real estate	1,268	1,268	—	—
Total	$52,824	$19,617	$33,207	$ —

Non-U.S. Pension Plans	March 31, 2015			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$770	$770	$—	$ —
U.S. equities / equity funds	7,862	7,862	—	—
International equities / equity funds	14,191	4,797	9,394	—
Global equity funds	10,372	—	10,372	—
US fixed income funds	2,849	2,849	—	—
International fixed income funds	8,507	—	8,507	—
Global fixed income funds	6,135	1,295	4,840	—
Other investments:				
Diversified funds	1,844	1,844	—	—
Real estate	1,179	1,179	—	—
Total	$53,709	$20,596	$33,113	$ —

The fair value hierarchy is described in Note 18 “Fair Value Measurements” to the “Notes to Consolidated Financial Statements."

A reconciliation of the beginning and ending balance of U.S. pension plan assets that are measured at fair value using significant unobservable inputs (Level 3) as of March 31, 2016 is as follows:

	U.S. Pension Plans		
	Diversified funds	Real estate	Total Level 3 Plan assets
Fair value, March 31, 2014	$99	$4,020	$4,119
Total gains	5	437	442

Purchases, sales and settlements	(28)	—	(28)
Fair value, March 31, 2015	76	4,457	4,533
Total gains (losses)	(10)	420	410
Purchases, sales and settlements	(16)	(525)	(541)
Fair value, March 31, 2016	$50	$4,352	$4,402

For all periods presented, the Company had no Non-U.S. pension plan assets measured at fair value using significant unobservable inputs (Level 3). Plan assets are recognized and measured at fair value in accordance with the accounting standards regarding fair value measurements. The following are general descriptions of asset categories, as well as the valuation methodologies and inputs used to determine the fair value of each major category of plan assets.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 13 - Employee Benefits (continued)

Plan Assets (continued)

Cash and cash equivalents include short-term investment funds, primarily in diversified portfolios of investment grade money market instruments and are valued using quoted market prices or other valuation methods, and thus classified within Level 1 or Level 2 of the fair value hierarchy.

Equity securities are investments in common stock of domestic and international corporations in a variety of industry sectors, and are valued primarily using quoted market prices and generally classified within Level 1 in the fair value hierarchy.

Fixed income securities include U.S. Treasuries and agencies, debt obligations of foreign governments and debt obligations in corporations of domestic and foreign issuers. The fair value of fixed income securities are based on observable prices for identical or comparable assets, adjusted using benchmark curves, sector grouping, matrix pricing, broker/dealer quotes and issuer spreads, and are generally classified within Level 1 or Level 2 in the fair value hierarchy.

Investments in equity and fixed income mutual funds are publicly traded and valued primarily using quoted market prices and generally classified within Level 1 in the fair value hierarchy. Investments in commingled funds used in certain non-U.S. pension plans are not publicly traded, but the underlying assets held in these funds are traded in active markets and the prices for these assets are readily observable. Holdings in these commingled funds are generally classified as Level 2 investments.

Real estate investments include those in private limited partnerships that invest in various commercial and residential real estate projects both domestically and internationally as well as publicly traded REIT securities. The fair values of private real estate assets are typically determined by using income and/or cost approaches or comparable sales approach, taking into consideration discount and capitalization rates, financial conditions, local market conditions and the status of the capital markets, and thus are generally classified within Level 3 in the fair value hierarchy. Publicly traded REIT securities are valued primarily using quoted market prices and are generally classified within Level 1 in the fair value hierarchy.

Diversified investments include those in limited partnerships that invest in companies that are not publicly traded on a stock exchange and mutual funds with an absolute return strategy. Limited partnership investment strategies in non-publicly traded companies include leveraged buyouts, venture capital, distressed investments and investments in natural resources. These investments are valued using inputs such as trading multiples of comparable public securities, merger and acquisition activity and pricing data from the most recent equity financing taking into consideration illiquidity, and thus are classified within Level 3 in the fair value hierarchy. Mutual fund investments with absolute return strategies are publicly traded and valued using quoted market prices and are generally classified within Level 1 in the fair value hierarchy.

Cash Flows

Contributions

The Company expects to contribute $2,967 to its U.S. benefits plans and $3,493 to its non-U.S. benefit plans in fiscal 2017.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Pension Benefits	Other Benefits

	U.S. Plans March 31, 2016	Non-U.S. Plans March 31, 2016	U.S. Plans March 31, 2016	Non-U.S. Plans March 31, 2016
2017	$9,384	$ 3,075	$278	$ 96
2018	7,338	2,768	267	100
2019	7,110	3,096	268	105
2020	7,359	2,875	269	116
2021	7,064	3,344	270	121
Years 2022-2026	33,775	16,827	1,279	700

The Company sponsors 401-k savings plans for most of its salaried employees located in the United States. The Supplemental Executive Retirement Plan and the Pension Equity Plan were replaced by the SRAP during 2008. The Company also maintains defined contribution plans at various foreign locations. The Company’s contributions to the defined contribution plans were $3,978 in 2016, $4,009 in 2015 and $4,435 in 2014.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 13 - Employee Benefits (continued)

Postretirement Health and Life Insurance Benefits
The Company provides certain health and life insurance benefits to retired U.S. employees (and their eligible dependents) who meet specified age and service requirements. The plan excludes new employees after September 2005 and caps the Company’s annual cost commitment to postretirement benefits for retirees. The Company retains the right, subject to existing agreements, to modify or eliminate these postretirement health and life insurance benefits in the future.

The Company provides certain health and life insurance benefits to retired Brazilian directors and certain retirees located in Europe including their eligible dependents who meet specified requirements.
During the three months ended September 30, 2015, the Company announced that certain U.S. postretirement medical benefits would no longer be provided effective January 1, 2016. This change is accounted for as a negative plan amendment and resulted in a reduction of $4,461 in the benefit obligation and in accumulated other comprehensive income as of September 30, 2015. The Company retains the right, subject to existing agreements, to modify or eliminate the postretirement medical benefits.

The following assumptions were used to determine non-U.S. Plan postretirement benefit obligations at March 31:

	2016	2015
Discount rate	11.33 %	10.54 %
Health care cost trend rate assumed for next year	8.00 %	7.87 %
Ultimate trend rate	8.00 %	7.87 %

A one-percentage-point change in assumed health care cost trend rates would not have a significant effect on the amounts reported for health care plans.

For 2016 and 2015, the annual rate of increase in the per capita cost of covered health care benefits is not applicable as the Company’s annual cost commitment to the benefits is capped and not adjusted for future medical inflation.

Additional retiree medical benefits are provided to certain U.S. individuals in accordance with their employment contracts. For 2016 the additional cost related to these contracts was $34.

Prior service credits of $709 and unrecognized net actuarial losses of $417 are expected to be amortized from accumulated comprehensive income into postretirement healthcare benefits net periodic benefit cost for the combined U.S. and non-U.S. postretirement benefits during fiscal 2017.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 13 - Employee Benefits (continued)

Postretirement Health and Life Insurance Benefits (continued)

A reconciliation of benefit obligations, plan assets and funded status of the plans is as follows:

	U.S. Plans		Non-U.S. Plans	
	March 31, 2016	March 31, 2015	March 31, 2016	March 31, 2015
Change in Benefit Obligation				
Benefit obligation, beginning	$8,841	$8,727	$1,243	$1,636
Service cost	23	39	3	3
Interest cost	247	361	113	154
Effect of currency translation	—	—	(107)	(446)
Plan amendments	(3,933)	—	—	—
Actuarial losses (gains)	(450)	370	93	(6)
Benefits paid	(511)	(656)	(116)	(98)
Benefit obligation, ending	$4,217	$8,841	$1,229	$1,243
Change in Plan Assets				
Fair value of plan assets, beginning	$—	$—	$—	$—
Employer contributions	511	656	116	98
Benefits paid	(511)	(656)	(116)	(98)
Fair value of plan assets, ending	$—	$—	$—	$—
Net amount recognized	$(4,217)	$(8,841)	$(1,229)	$(1,243)

	U.S. Plans		Non-U.S. Plans	
	March 31,		March 31,	
	2016	2015	2016	2015
Amounts Recognized in the Consolidated Balance Sheets Consist of:				
Accrued current benefit liability recorded in Accrued Expenses and Other Current Liabilities	$(278)	$(637)	$(96)	$(93)
Accrued non-current benefit liability recorded in Pension, Postretirement and Other Long-Term Liabilities	(3,939)	(8,204)	(1,133)	(1,150)
Net amount recognized	$(4,217)	$(8,841)	$(1,229)	$(1,243)

There are no plan assets for 2016 or 2015. Net periodic benefit costs included the following components:

	U.S. Plans			Non-U.S. Plans		
	March 31,			March 31,		
	2016	2015	2014	2016	2015	2014
Service cost	$23	$39	$60	$3	$3	$6
Interest cost	247	361	375	113	154	173
Prior service credit	(349)	(1,196)	(1,622)	(10)	(14)	(16)
Actuarial losses (gains)	432	450	474	(2)	(5)	15

Net periodic benefit costs (income)	$353	$(346)	$(713)	$104	$138	$178

The Company continues to evaluate ways to better manage these benefits and control their costs. Any changes in the plan or revisions to assumptions that affect the amount of expected future benefits may have a significant effect on the amount of the reported obligation and annual expense. The Company expects to contribute $374 to its combined U.S. and non-U.S. postretirement benefit plans in fiscal 2017.

Employees in operations located in certain other foreign operations are covered by various postretirement benefit arrangements. For these foreign plans, the cost of benefits charged to income was not material in 2016, 2015 and 2014.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 14 – Segment Information

The Company purchases, processes, sells, and stores leaf tobacco. Tobacco is purchased in more than 35 countries and shipped to approximately 90 countries. The sales, logistics and billing functions of the Company are primarily concentrated in service centers outside of the producing areas to facilitate access to our major customers. Within certain quality and grade constraints, tobacco is fungible and, subject to these constraints, customers may choose to fulfill their needs from any of the areas where the Company purchases tobacco.

Management evaluates performance using information included in management reports. The Company has five geographic operating segments: Africa, Asia, Europe, North America and South America. Beginning April 1, 2015, the Company's management ceased evaluating performance of value added services as a separate operating segment. The Company's cut rag and other specialty products and services are now combined within the geographic operating segments in which they operate. In reviewing these operations, the Company concluded that the economic characteristics of North America were dissimilar from the other operating segments. Based on this fact, the Company is disclosing North America separately and has aggregated the remaining four operating segments, Africa, Asia, Europe and South America into one reportable segment "Other Regions." The Company concluded that these operating segments have similar long term financial performance and similar economic characteristics in each of the following areas:

a. the nature of the products and services;
b. the nature of the production processes;
c. the type or class of customer for their products and services;
d. the methods used to distribute their products or provide their services; and
e. the nature of the regulatory environment.

Selling, logistics, billing, and administrative overhead, including depreciation, which originates primarily from the Company’s corporate and sales offices, are allocated to the segments based upon segment operating income. The Company reviews performance data from purchase through sale based on the source of the product and all intercompany transactions are allocated to the region that either purchases or processes the tobacco.

	Years Ended March 31,		
Analysis of Segment Operations	2016	2015	2014
Sales and other operating revenues:			
North America	$468,098	$440,985	$498,365
Other Regions	1,436,494	1,625,880	1,856,171
Total revenue	$1,904,592	$2,066,865	$2,354,536
Operating income:			
North America	$25,230	$40,437	$31,685
Other Regions	176,557	56,858	73,828
Total operating income	201,787	97,295	105,513
Debt retirement expense	—	(771)	57,449
Interest expense	117,190	113,273	116,827
Interest income	7,077	6,268	7,068
Income (loss) before income taxes and other items	$91,674	$(8,939)	$(61,695)

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 14 - Segment Information (continued)

	Years Ended March 31,		
Analysis of Segment Assets	2016	2015	2014
Segment assets:			
North America	$340,534	$230,833	$227,131
Other Regions	1,637,539	1,403,373	1,531,217
Total assets	$1,978,073	$1,634,206	$1,758,348
Trade and other receivables, net			
North America	$48,229	$26,781	$26,551
Other Regions	352,779	212,722	192,934
Total trade and other receivables, net	$401,008	$239,503	$219,485
Goodwill:			
North America	2,794	2,794	2,794
Other Regions	13,669	—	—
Total Goodwill	$16,463	$2,794	$2,794
Equity in net assets of investee companies:			
North America	$—	$—	$—
Other Regions	57,243	53,678	50,390
Total equity in net assets of investee companies	$57,243	$53,678	$50,390
Depreciation and amortization:			
North America	$6,432	$5,618	$5,899
Other Regions	21,929	24,005	26,528
Total depreciation and amortization	$28,361	$29,623	$32,427
Capital expenditures:			
North America	$7,516	$10,044	$13,802
Other Regions	10,270	12,629	13,953
Total capital expenditures	$17,786	$22,673	$27,755

Geographic information as to sales and other operating revenues is based on the destination of the product shipped. The Belgium destination represents a customer owned storage and distribution center from which the tobacco will be shipped on to manufacturing facilities.

	Years Ended March 31,		
Sales by Destination	2016	2015	2014
Sales and Other Operating Revenues:			
United States	$311,634	$363,964	$467,111
China	209,781	254,658	401,480
Belgium	132,817	137,513	125,377
Russia	116,941	118,233	125,093
Germany	110,318	116,713	130,163
Indonesia	82,867	58,609	58,919

Other	940,234	1,017,175	1,046,393
	$1,904,592	$2,066,865	$2,354,536

Sales and Other Operating Revenues to Major Customers
Including their respective affiliates, accounting for more than 10% of total sales and other operating revenues were each of Philip Morris International Inc. and China Tobacco International Inc. for the year ended March 31, 2016, 2015 and 2014.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 14 - Segment Information (continued)

	Years Ended March 31,		
Property, Plant and Equipment by Location	2016	2015	2014
Property, Plant and Equipment, Net:			
Brazil	$82,307	$87,161	$92,142
United States	59,713	57,861	53,517
Zimbabwe	51,295	—	—
Malawi	24,609	25,704	27,227
Tanzania	22,831	23,610	24,979
Argentina	6,914	7,390	7,325
Europe	6,895	15,191	19,711
Asia	6,447	6,960	7,545
Zambia	4,366	6,582	6,690
Turkey	2,955	3,454	18,310
Other	9,193	4,001	3,728
	$277,525	$237,914	$261,174

Note 15 – Foreign Currency Translation

The financial statements of foreign entities included in the consolidated financial statements have been translated to U.S. dollars in accordance with generally accepted accounting principles.

The financial statements of foreign subsidiaries, for which the local currency is the functional currency, are translated into U.S. dollars using exchange rates in effect at period end for assets and liabilities and average exchange rates during each reporting period for results of operations. Adjustments resulting from translation of financial statements are reflected as a separate component of other comprehensive income.

The financial statements of foreign subsidiaries, for which the U.S. dollar is the functional currency and which have certain transactions denominated in a local currency, are remeasured into U.S. dollars. The remeasurement of local currencies into U.S. dollars creates remeasurement adjustments that are included in net income. Exchange losses in 2016, 2015 and 2014 were $6,498, $8,274 and $12,348, respectively, and are included in the respective statements of income in cost of sales and income taxes.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 16 – Contingencies and Other Information

Non-Income Tax
The government in the Brazilian State of Parana (“Parana”) issued a tax assessment on October 26, 2007 with respect to local intrastate trade tax credits that result primarily from tobacco transferred between states within Brazil. The assessment for intrastate trade tax credits taken is $3,701 and the total assessment including penalties and interest at March 31, 2016 is $11,097. The Company believes it has properly complied with Brazilian law and will contest any assessment through the judicial process. Should the Company lose in the judicial process, the loss of the intrastate trade tax credits would have a material impact on the financial statements of the Company.

The Company also has local intrastate trade tax credits in the Brazil State of Rio Grande do Sul and the State of Santa Catarina. These jurisdictions permit the sale or transfer of excess credits to third parties, however approval must be obtained from the tax authorities. The Company has agreements with the state governments regarding the amounts and timing of credits that can be sold. The tax credits have a carrying value of $3,696. The intrastate trade tax credits are monitored for impairment in future periods based on market conditions and the Company’s ability to use or sell the tax credits.

In 1969, the Brazilian government created a tax credit program that allowed companies to earn IPI tax credits (“IPI credits”) based on the value of their exports. The government began to phase out this program in 1979, which resulted in numerous lawsuits between taxpayers and the Brazilian government. The Company has a long legal history with respect to credits it earned while the IPI credit program was in effect. In 2001, the Company won a claim related to certain IPI credits it earned between 1983 and 1990. The Brazilian government appealed this decision and numerous rulings and appeals were rendered on behalf of both the government and the Company from 2001 through 2013. Because of this favorable ruling, the Company began to use these earned IPI credits to offset federal taxes in 2004 and 2005, until it received a Judicial Order to suspend the IPI offsetting in 2005. The value of the federal taxes offset in 2004 and 2005 was $24,142 and the Company established a reserve on these credits at the time of offsetting as they were not yet realizable due to the legal uncertainty that existed. Specifically, the Company extinguished other federal tax liabilities using IPI credits and recorded a liability in Pension, Postretirement and Other Long-Term Liabilities to reflect that the credits were not realizable at that time due to the prevalent legal uncertainty. On March 7, 2013, the Brazilian Supreme Court rendered a final decision in favor of the Company that recognized the validity of the IPI credits and secured the Company's right to benefit from the IPI credits earned from March 1983 to October 1990. This final decision expressly stated the Company has the right to the IPI credits. The Company estimates the total amount of the IPI credits to be approximately $94,316 at March 31, 2013. Since the March 2013 ruling definitively (without the government's ability to appeal) granted the Company the ownership of the IPI credits generated between 1983 and 1990, the Company believes the amount of IPI credits that were used to offset other federal taxes in 2004 and 2005 are realizable beyond a reasonable doubt. Accordingly, at March 31, 2013, the Company recorded the $24,142 IPI credits it realized in the Statements of Consolidated Operations in Other Income. No further benefit has been recognized pending the outcome of the judicial procedure to ascertain the final amount as those amounts have not yet been realized.

Other
Mindo, S.r.l., the purchaser in 2004 of the Company's Italian subsidiary Dimon Italia, S.r.l., asserted claims against a subsidiary of the Company arising out of that sale transaction in an action filed before the Court of Rome on April 12, 2007. The claim involved a guaranty letter issued by a consolidated subsidiary of the Company in connection with the sale transaction, and sought the recovery of €7,400 plus interest and costs. On November 11, 2013, the court issued its judgment in favor of the Company’s subsidiary, rejecting the claims asserted by Mindo, S.r.l., and awarding the

Company's subsidiary legal costs of €48. On December 23, 2014, Mindo, S.r.l. appealed the judgment of the Court of Rome to the Court of Appeal of Rome. A hearing before the Court of Appeal of Rome was held on June 12, 2015, which was adjourned pending a further hearing set for February 2018. The outcome of, and timing of a decision on, the appeal are uncertain.

In addition to the above-mentioned matter, certain of the Company's subsidiaries are involved in other litigation or legal matters incidental to their business activities, including tax matters. While the outcome of these matters cannot be predicted with certainty, the Company is vigorously defending them and does not currently expect that any of them will have a material adverse effect on its business or financial position. However, should one or more of these matters be resolved in a manner adverse to its current expectation, the effect on the Company's results of operations for a particular fiscal reporting period could be material.

In accordance with generally accepted accounting principles, the Company records all known asset retirement obligations ("ARO") for which the liability can be reasonably estimated. Currently, it has identified an ARO associated with one of its facilities that requires it to restore the land to its initial condition upon vacating the facility. The Company has not recognized a liability under generally accepted accounting principles for this ARO because the fair value of restoring the land at this site cannot be reasonably estimated since the settlement date is unknown at this time. The settlement date is unknown because the land restoration is not required until title is returned to the government, and the Company has no current or future plans to return the title. The Company will recognize a liability in the period in which sufficient information is available to reasonably estimate its fair value.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 17 – Sale of Receivables

During the year ended March 31, 2016, the Company sold trade receivables to unaffiliated financial institutions under three accounts receivable securitization programs, one of which expired prior to March 31, 2016 and has not been replaced. Under the first program, the Company continuously sells a designated pool of trade receivables to a special purpose entity, which in turn sells 100% of the receivables to an unaffiliated financial institution. This program allows the Company to receive a cash payment and a deferred purchase price receivable for sold receivables. Following the sale and transfer of the receivables to the special purpose entity, the receivables are isolated from the Company and its affiliates, and upon the sale and transfer of the receivables from the special purpose entity to the unaffiliated financial institutions effective control of the receivables is passed to the unaffiliated financial institution, which has all rights, including the right to pledge or sell the receivables. The investment limit is $150,000, which was reduced to $100,000 on May 26, 2016. The Company incurred program costs of $1,580 and $1,642 during the years ending March 31, 2016 and 2015 which were included in Other Income in the Statements of Consolidated Operations. The program requires a minimum level of deferred purchase price to be retained by the Company in connection with the sales. The Company continues to service, administer and collect the receivables on behalf of the special purpose entity and receives a servicing fee of 0.5% of serviced receivables per annum. As the Company estimates the fee it receives in return for its obligation to service these receivables is at fair value, no servicing assets or liabilities are recognized. Servicing fees recognized were not material and are recorded as a reduction of Selling, General and Administrative Expenses within the Statements of Consolidated Operations.

The agreement for the second securitization program previously executed on September 28, 2011, as amended November 30, 2013, expired December 31, 2014. This securitization program was replaced by a securitization program with the same financial institution executed on March 31, 2015. The agreement for the third securitization program was executed on March 28, 2013, amended and restated March 25, 2014, and ended as of March 26, 2016. These programs also allow the Company to receive a cash payment and a deferred purchase price receivable for sold receivables. These are uncommitted programs, whereby the Company offers receivables for sale to the respective unaffiliated financial institution, which are then subject to acceptance by the unaffiliated financial institution. Following the sale and transfer of the receivables to the unaffiliated financial institution, the receivables are isolated from the Company and its affiliates, and effective control of the receivables is passed to the unaffiliated financial institution, which has all rights, including the right to pledge or sell the receivables. The Company receives no servicing fee from the unaffiliated financial institution and as a result, has established a servicing liability based upon unobservable inputs, primarily discounted cash flow. For the years ended March 31, 2016 and 2015, the expense for the servicing liability was $87 and $178 which is included in Other Income in the Statements of Consolidated Operations. The liability is recorded in Accrued Expenses and other Current Liabilities in the Consolidated Balance Sheets. As receivables sold under these facilities were settled in fiscal 2016 and 2015, the servicing liability was reduced by $218 and $115 and is included in Selling, General and Administrative Expenses in the Statements of Consolidated Operations. The investment limit under the second agreement is $35,000.

Under the programs, all of the receivables sold for cash are removed from the Consolidated Balance Sheets and the net cash proceeds received by the Company are included as cash provided by operating activities in the Statements of Consolidated Cash Flows. A portion of the purchase price for the receivables is paid by the unaffiliated financial institutions in cash and the balance is a deferred purchase price receivable, which is paid as payments on the receivables are collected from account debtors. The deferred purchase price receivable represents a continuing involvement and a beneficial interest in the transferred financial assets and is recognized at fair value as part of the sale transaction. The deferred purchase price receivables are included in Trade and Other Receivables, Net in the Consolidated Balance Sheets and are valued using unobservable inputs (i.e., level three inputs), primarily discounted cash flow. As servicer of these facilities, the Company may receive funds that are due to the unaffiliated financial institutions which are net settled on the next settlement date. As of March 31, 2016 and 2015, Trade and Other Receivables, Net in the Consolidated Balance Sheets has been reduced by $9,113 and $20,396 as a result of the net settlement. See Note 18 "Fair Value Measurements" to the "Notes to Consolidated Financial Statements" for further information.

The difference between the carrying amount of the receivables sold under these programs and the sum of the cash and fair value of the other assets received at the time of transfer is recognized as a loss on sale of the related receivables and recorded in Other Income in the Statements of Consolidated Operations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 17 – Sale of Receivables (continued)

The following table summarizes the Company’s accounts receivable securitization information as of March 31:

	2016	2015
Receivables outstanding in facility as of March 31:	$188,764	$235,162
Beneficial interest as of March 31	$40,368	$40,712
Servicing Liability as of March 31	$58	$131
Cash proceeds for the twelve months ended March 31:		
Cash purchase price	$585,648	$622,844
Deferred purchase price	233,753	229,573
Service fees	553	589
Total	$819,954	$853,006

Note 18 – Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. A three-level valuation hierarchy based upon observable and non-observable inputs is utilized. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. Preference is given to observable inputs. These two types of inputs create the following fair value hierarchy:

- Level 1 - Quoted prices for identical assets or liabilities in active markets.
- Level 2 - Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.
- Level 3 - Significant inputs to the valuation model are unobservable.

The Company's financial assets and liabilities measured at fair value include derivative instruments, securitized beneficial interests and guarantees. The application of the fair value guidance to our non-financial assets and liabilities primarily includes assessments of investments in subsidiaries, goodwill and other intangible assets and long-lived assets for potential impairment.

Following are descriptions of the valuation methodologies the Company uses to measure different assets or liabilities at fair value.

Debt

The fair value of debt is measured for purpose of disclosure. Debt is shown at historical value in the Consolidated Balance Sheets. When possible, to measure the fair value of its debt the Company uses quoted market prices of its own debt with approximately the same remaining maturities. When this is not possible, the fair value of debt is calculated using discounted cash flow models with interest rates based upon market based expectations, the Company's credit risk and the contractual terms of the debt instrument. The Company has portions of its debt with maturities of one year or less for which book value is a reasonable approximation of the fair value of this debt. The fair value of debt is considered to fall within Level 2 of the fair value hierarchy as significant value drivers such as interest rates are readily observable. The carrying value and estimated fair value of the Company's Long-Term Debt are shown in the table below.

	March 31,	
	2016	2015
Carrying value	$920,444	$741,837
Estimated fair value	753,038	653,548

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 18 – Fair Value Measurements (continued)

Derivative financial instruments
The Company's derivatives consist of foreign currency contracts. The fair value of the derivatives are determined using a discounted cash flow analysis on the expected future cash flows of each derivative. This analysis utilizes observable market data including forward yield curves and implied volatilities to determine the market's expectation of the future cash flows of the variable component. The fixed and variable components of the derivative are then discounted using calculated discount factors developed based on the LIBOR swap rate and are netted to arrive at a single valuation for the period. The Company also incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. As of March 31, 2016 and March 31, 2015 the inputs used to value the Company's derivatives fall within Level 2 of the fair value hierarchy. However, credit valuation adjustments associated with its derivatives could utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. Should the use of such credit valuation adjustment estimates result in a significant impact on the overall valuation, this would require reclassification to Level 3.

Securitized beneficial interests
The fair value of securitized beneficial interests is based upon a valuation model that calculates the present value of future expected cash flows using key assumptions for payment speeds and discount rates. The assumptions for payment speed are based on the Company's historical experience. The discount rates are based upon market trends and anticipated performance relative to the particular assets securitized which have been assumed to be commercial paper rate plus a margin or LIBOR plus a margin. Due to the use of the Company's own assumptions which are not observable, and the uniqueness of these transactions, securitized beneficial interests fall within Level 3 of the fair value hierarchy. Since the discount rate and the payment speed are components of the same equation, a change in either by 10% or 20% would change the value of the recorded beneficial interest at March 31, 2016 by $166 and $333, respectively.

Guarantees
The Company guarantees funds issued to tobacco suppliers by third party lending institutions and also guarantees funds borrowed by a deconsolidated subsidiary. The fair value of guarantees is based upon either the premium the Company would require to issue the same inputs or historical loss rates and as such these guarantees fall into Level 3 of the fair value hierarchy.

Tobacco Supplier Guarantees - The Company provides guarantees to third parties for indebtedness of certain tobacco suppliers to finance their crops. The fair value of these guarantees is the greater of using a discounted cash flow based on rates with and without the guarantees or applying historical loss rates generated from guaranteed and non-guaranteed tobacco supplier loans. Should the loss rates change 10% or 20%, the fair value of the guarantee at March 31, 2016 would change by $962 or $1,901, respectively.

Deconsolidated subsidiary guarantees - Due to the reconsolidation of MTC, there are no deconsolidated subsidiary guarantees that have a fair value.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 18 – Fair Value Measurements (continued)

Input Hierarchy of Items Measured at Fair Value on a Recurring Basis

The following tables present the Company's assets and liabilities measured at fair value on a recurring basis:

	March 31, 2016			March 31, 2015		
	Level 2	Level 3	Total Assets / Liabilities, at Fair Value	Level 2	Level 3	Total Assets / Liabilities, at Fair Value
Assets						
Derivative financial instruments	$ —	$ —	$ —	$ 1,373	$ —	$ 1,373
Securitized beneficial interests	—	40,368	40,368	—	40,712	40,712
Total Assets	$ —	$ 40,368	$ 40,368	$ 1,373	$ 40,712	$ 42,085
Liabilities						
Guarantees	$ —	$ 7,350	$ 7,350	$ —	$ 8,650	$ 8,650
Derivative financial instruments	—	—	—	—	—	—
Total Liabilities	$ —	$ 7,350	$ 7,350	$ —	$ 8,650	$ 8,650

Reconciliation of Change in Recurring Level 3 Balances

The following tables present the changes in Level 3 instruments measured on a recurring basis.

	Securitized Beneficial Interests	Guarantees
Beginning Balance March 31, 2014	$ 35,559	$ 7,344
Issuance of guarantees/sales of receivables	233,392	12,921
Settlements	(223,150)	(9,304)
Losses recognized in earnings	(5,089)	(2,311)
Ending Balance at March 31, 2015	40,712	8,650
Issuance of guarantees/sales of receivables	249,326	11,327
Settlements	(246,009)	(11,719)
Losses recognized in earnings	(3,661)	(908)
Ending Balance at March 31, 2016	$ 40,368	$ 7,350

The amount of total losses included in earnings for the years ended March 31, 2016 and 2015 attributable to the change in unrealized losses relating to assets still held at the respective dates was $1,521 and $2,034 on securitized beneficial interests.

Gains and losses included in earnings are reported in Other Income.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 18 - Fair Value Measurements (continued)

Information About Fair Value Measurements Using Significant Unobservable Inputs

The following table summarizes significant unobservable inputs and the valuation techniques thereof for the periods ended March 31, 2016 and 2014:

	Fair value at March 31, 2016	Valuation Technique	Unobservable Input	Range (Weighted Average)
Securitized Beneficial Interests			Discount Rate	3.17% to 3.77%
	$40,368	Discounted Cash Flow	Payment Speed	94.7 to 116.0 days
Tobacco Supplier Guarantees	3,278	Historical Loss	Historical Loss	5.0% to 15.9%
	4,072	Discounted Cash Flow	Market Interest Rate	15.8% to 22.0%

	Fair value at March 31, 2015	Valuation Technique	Unobservable Input	Range (Weighted Average)	
Securitized Beneficial Interests	$40,712	Discounted Cash Flow	Discount Rate	2.73% to 2.74%	
			Payment Speed	116.0 to 119.4 days	
Tobacco Supplier Guarantees	3,110	Historical Loss	Historical Loss	10.0% to 15.8%	
	3,412	Discounted Cash Flow	Market Interest Rate	13.0% to 22.0%	
Deconsolidated Subsidiary Guarantees	2,128	Discounted Cash Flow	Market Interest Rate	12.0	%

Note 19 – Related Party Transactions

The Company's operating subsidiaries engage in transactions with related parties in the normal course of business. The following is a summary of balances and transactions with related parties of the Company:

	March 31, 2016	March 31, 2015
Balances:		
Accounts receivable	$1,920	$7,491
Accounts payable	$20,490	$58,512

	Year Ended March 31,		
	2016	2015	2014
Transactions:			
Sales	$18,827	$20,692	$—
Purchases	$264,707	$271,466	$258,169

The Company's operating subsidiaries have entered into transactions with affiliates of the Company for the purpose of procuring inventory.

The Company's balances due to and from related parties and transactions relate to the Company's equity basis investments in companies located in Asia, South America, North America and Europe which grow, purchase, process and sell tobacco or produce consumable e-liquids.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 20 – Selected Quarterly Financial Data (Unaudited)

Summarized quarterly financial information is as follows:

	First Quarter	Second Quarter (2)	Third Quarter (2)	Fourth Quarter (2)	Fiscal Year
Year Ended March 31, 2016					
Sales and other operating revenue	$266,282	$414,853	$491,139	$732,318	$1,904,592
Gross profit	29,398	54,874	68,738	72,784	225,794
Other income (expense)	560	(1,029)	594	105,302	105,427
Restructuring	2,948	(386)	1,525	1,801	5,888
Net income (loss)	(25,957)	(21,123)	11,685	100,840	65,445
Net earnings (loss) attributable to noncontrolling interest	(7)	(58)	(50)	28	(87)
Net income (loss) attributable to Alliance One International, Inc.	(25,950)	(21,065)	11,735	100,812	65,532
Per Share of Common Stock:					
Basic earnings (loss) attributable to Alliance One International, Inc. (1)	(2.93)	(2.37)	1.32	11.33	7.38
Diluted earnings (loss) attributable to Alliance One International, Inc. (1)	(2.93)	(2.37)	1.32	11.33	7.38
Market Price - High	25.40	26.47	21.03	17.94	26.47
- Low	10.80	18.79	10.35	8.33	8.33
Year Ended March 31, 2015					
Sales and other operating revenue	$249,144	$596,970	$489,227	$731,524	$2,066,865
Gross profit	33,271	64,876	68,581	76,771	243,499
Restructuring	—	500	—	8,618	9,118

Net income (loss)	(23,630)	(8,158)	1,333	2,421	(28,034)
Net earnings (loss) attributable to noncontrolling interest	55	(7)	(230)	10	(172)
Net income (loss) attributable to Alliance One International, Inc.	(23,685)	(8,151)	1,563	2,411	(27,862)
Per Share of Common Stock:					
Basic earnings (loss) attributable to Alliance One International, Inc. (1)	(2.69)	(0.92)	0.18	0.27	(3.16)
Diluted earnings (loss) attributable to Alliance One International, Inc. (1)	(2.69)	(0.92)	0.18	0.27	(3.16)
Market Price - High	30.10	27.40	21.00	16.30	30.10
- Low	23.00	19.30	15.20	8.30	8.30

(1) Does not add due to quarterly change in average shares outstanding.
(2) The second quarter and third quarter of fiscal 2016 and the third quarter and fourth quarter of fiscal 2015 include adjustments for certain immaterial errors in previously issued financial statements. See Note 1, “Significant Accounting Policies” to the “Notes to Consolidated Financial Statements" for further information.

Fourth Quarter 2016 - As of March 31, 2016, the Company determined that the significant doubt about the Company's ability to control MTC was eliminated and recorded a gain of $106,203 upon reconsolidation.

Fourth Quarter 2015 - Restructuring charges of $8,618 related to first phase of global restructuring plan in connection with reduction in global workforce.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 21 - Subsequent Events

On May 20, 2016, the Company entered into the Fourth Amendment to the Amended and Restated Credit Agreement (the “Fourth Amendment"), which amended the Credit Agreement dated as of July 2, 2009, as amended and restated as of August 1, 2013, between the Company, certain of its subsidiaries, the lenders party thereto and Deutsche Bank Trust Company Americas, as administrative agent (as so amended and restated, the “Credit Agreement”).
The Fourth Amendment effected the following modifications to the Credit Agreement (capitalized terms are as defined in the Credit Agreement):

- modified the threshold for the Consolidated Interest Coverage Ratio for the fiscal quarter ending March 31, 2017 from 1.90 to 1.00 to 1.65 to 1.00;

- modified the threshold for the Consolidated Leverage Ratio for the fiscal quarter ending March 31, 2017 from 5.10 to 1.00 to 5.50 to 1.00; and

- modified the definition of Consolidated EBIT to permit the add backs for the specified periods as set forth in the table below in connection with certain discrepancies discovered with respect to the Company’s Kenyan subsidiary:

For the Quarter Ended (in dollars)	Kenyan Discrepancies	Legal and Professional Costs in Respect of Kenyan Discrepancies
March 31, 2013	$(1,745,717)	0
June 30, 2013	$2,198,708	0
September 30, 2013	$(1,492,481)	0
December 31, 2013	$4,681,765	0
March 31, 2014	$7,869,112	0
June 30, 2014	$1,834,281	0
September 30, 2014	$6,606,350	0
December 31, 2014	$449,593	0
March 31, 2015	$3,577,392	0
June 30, 2015	$5,263,723	0
September 30, 2015	$5,821,224	0
December 31, 2015	0	$1,771,000
March 31, 2016	0	$6,129,000
June 30, 2016	0	$4,000,000
September 30, 2016	0	$3,500,000

Prior to the execution of the Fourth Amendment, the Company would have been in violation of one or more covenants in fiscal 2014 and 2015 as a result of improper accounting for accounts receivable, inventory, sales and cost of goods sold in Kenya. In the Fourth Amendment, the lenders modified certain financial covenants and definitions as described above and, as a result, the Company was in compliance with all such amended covenants for fiscal 2013, 2014 and 2015.
Note that in March 2016, Moody's Investors Service downgraded the Corporate Family Rating of the Company to Caa2 from Caa1. Moody's also downgraded the Probability of Default Rating to Caa2-PD from Caa1-PD, and the senior secured second lien note rating to Caa3 with a Loss Given Default (“LGD”) of 5 from Caa2 and a LGD of 5. At the same time Moody's affirmed the Company's senior secured bank credit facility rating at B1 with a LGD of 1 and

the Speculative Grade Liquidity Rating at SGL-4. Standard & Poor’s (“S&P”) ratings are Corporate Credit Rating CCC+, senior secured second lien note rating CCC with a recovery rating (“RR”) of 5 and a senior secured debt rating of B with a RR of 1. S&P has outlook negative and as of June 3, 2016, Moody's has outlook positive. However, the Company affirms its belief that the sources of capital it has access to are sufficient to fund its anticipated needs for fiscal years 2016 and 2017. As of March 31, 2016, available credit lines and cash were $639,388, comprised of $199,720 in cash; $439,668 of credit lines, of which $10,259 was available under

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 21 - Subsequent Events (continued)

the U.S. revolving credit facility; and $429,409 of foreign seasonal credit lines with $13,057 exclusively for letters of credit. Notes payable to banks are typically for 180 to 270 days and are entered into each year in various locales around the world. The U.S revolver matures April 15, 2017 and the Company plans to either extend or refinance this facility during fiscal year 2017. The Company's access to capital meets its current expectations and outlook that is anticipated to provide sufficient liquidity to fulfill its future funding requirements. General deterioration of its business and the cash flow that it generates, failure to renew foreign lines or an inability to extend or refinance its U.S. revolver could impact its ability to meet its future liquidity requirements.

On July 6, 2016, the Company entered into the Fifth Amendment to the Amended and Restated Credit Agreement (the “Fifth Amendment"), which further amended the Credit Agreement. The Fifth Amendment clarified that for the purpose of certain covenants under the Credit Agreement up to $100,000 of debt of the Company’s MTC subsidiary in respect of loans under a credit facility with a third-party lender funded by another specified subsidiary of the Company pursuant to a participation interest in such loans or an assignment in respect of such loans consistent with past practices prior to the date of the Fifth Amendment (so long as such loan proceeds are used in connection with the purchase, processing, exporting and financing of the contract growing and buying of tobacco) shall be deemed to be debt owed by MTC to the other Company subsidiary (and not the third-party lender) as intercompany debt regardless of the presentation of such debt in the consolidated financial statements of the Company in accordance with GAAP. The Fifth Amendment also waived any noncompliance by the Company under the Credit Agreement that may have occurred prior to the effectiveness of the Fifth Amendment as a result of such debt not being treated as intercompany debt, as well as the Company’s failure to deliver audited financial statements for the fiscal year ended March 31, 2016 within the time period required under the Credit Agreement if such audited financial statements are delivered by July 19, 2016.

Note 22 - Reconsolidation of MTC

On March 31, 2016, the Company regained control over its wholly owned Zimbabwe subsidiary, Mashonaland Tobacco Company, LTD (“MTC”). The change in control was a result of the change in the political landscape in Zimbabwe and the recent issuance of clarifications to the indigenization laws within Zimbabwe that resulted in the elimination of significant doubt about the Company's ability to control MTC. The reconsolidation of MTC has been treated as a purchase business combination and as such, the fair value of the assets and liabilities has been recorded at their fair value.
Since the Company already owned 100% of the equity interest, no consideration was transferred as part of the reconsolidation. The Company estimated the fair value of its equity interest in MTC at March 31, 2016 to be $94,395 based on a discounted cash flow model. The amount was then allocated to the fair value of the acquired assets and liabilities, which were recorded on the Consolidated Balance Sheet at March 31, 2016. The fair value of the recognized assets included a customer relationship intangible asset of $24,830 and goodwill of $13,669. The effect of the reconsolidation under the purchase business combination guidance resulted in a gain of $106,203 which has been recorded and shown in “Other Income” on the Statement of Consolidated Operations for the year ended March 31, 2016. The gain is the result of the fair value of the equity interest of $94,395 and the reversal of a deferred liability of $11,808.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 22 - Reconsolidation of MTC (continued)

The following table summarizes the fair values of the assets acquired and liabilities assumed as of March 31, 2016.

thousands	March 31, 2016
Cash and cash equivalents	$10,277
Trade and other receivables, net	4,377
Net intercompany receivable (eliminated in consolidation)	100,423
Inventories	38,087
Other current assets	1,663
Property, plant and equipment	51,295
Goodwill and other intangible assets	38,499
Other noncurrent assets	288
Total assets acquired	244,909
Notes payable to banks (1)	130,600
Accounts payable	3,344
Other current liabilities	5,480
Deferred tax liabilities	11,090
Total liabilities	150,514
Fair value of equity interest	$94,395

(1) Includes $130,600 of debt owed by MTC under a short-term credit facility in which one of the Company's other subsidiaries, Intabex Netherlands BV ("Intabex"), has a participation interest in the lender's rights and obligations under the facility. At March 31, 2016, $84,258 of that amount was attributed to outstanding borrowings by MTC funded under that facility by Intabex pursuant to that participation interest. Because Intabex's funding is pursuant to a participation interest through a third-party lender and not a direct intercompany loan between Intabex and MTC, the total amount of debt under the facility is required to be reflected as consolidated debt upon the reconsolidation of MTC.

As indicated in the above table, the goodwill and intangible asset balance relative to the reconsolidation of MTC is $38,499 within the "Other Regions" segment and is non-deductible for tax purposes. Included within this balance is goodwill attributable in part to the workforce of the acquired business and a finite-lived customer relationship intangible of $24,830, which is being amortized over a useful life of fifteen years.

Alliance One Selected Unaudited Pro Forma Combined Financial Information
The unaudited pro forma information in the table below summarizes the combined results of the Company and MTC for the years ended March 31, 2016 and 2015 as if the companies were combined as of April 1, 2014. The pro forma information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved had the reconsolidation taken place at the beginning of each period or results of future periods. The following information has been adjusted for intercompany eliminations as required for consolidation accounting.

	Unaudited Proforma Twelve Months Ended March 31,	
thousands except per share data	2016	2015
Revenues	$1,912,324	$2,077,732
Operating income	114,615	108,669
Net loss	(31,409)	(24,885)

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 23 - Reconciliation of Previously Reported Amounts to Amounts Restated

As described in Note 1, “Significant Accounting Policies” to the “Notes to Consolidated Financial Statements,” the Company has identified certain misstatements relating to prior years’ consolidated financial statements and has corrected these prior period misstatements in the accompanying consolidated financial statements. The impacts of these changes on selected financial amounts within the accompanying consolidated financial statements are summarized below:

	Consolidated Balance Sheet as of March 31, 2015				
(in thousands)	As Previously Reported	Inventory Adjustments	Tax Adjustments	Other Adjustments	As Restated
Total current assets	$1,217,095	$ (1,380)	$ (1,824)	$ 11,808	$1,225,699
Total assets	1,626,646	(1,380)	(1,824)	10,764	1,634,206
Non-current liabilities	844,954	—	—	10,764	855,718
Total equity	197,268	(1,380)	(1,824)	—	194,064
Total liabilities and equity	1,626,646	(1,380)	(1,824)	10,764	1,634,206

	Statement of Consolidated Operations March 31, 2015				
(in thousands, except for per share amounts)	As Previously Reported	Inventory Adjustments	Tax Adjustments	Other Adjustments	As Restated
Cost of goods and services sold	$1,824,148	$ 674	$ —	$ (1,456)	$1,823,366
Gross profit	242,717	(674)	—	1,456	243,499
Other income (expense)	1,390	—	—	(1,456)	(66)
Operating income	97,969	(674)	—	—	97,295
Loss before income taxes and other	(8,265)	(674)	—	—	(8,939)
Income tax expense	20,860	—	1,058	—	21,918
Net loss	(26,302)	(674)	(1,058)	—	(28,034)
Net loss attributable to Alliance One International, Inc.	(26,130)	(674)	(1,058)	—	(27,862)
Loss per share:					
Basic	(2.96)	(0.08)	(0.12)	—	(3.16)
Diluted	(2.96)	(0.08)	(0.12)	—	(3.16)

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 23 - Reconciliation of Previously Reported Amounts to Amounts Revised and Restated (continued)

	Consolidated Statement of Comprehensive Income (Loss) March 31, 2015			
(in thousands)	As Previously Reported	Inventory Adjustments	Tax Adjustments	As Restated
Net loss	$(26,302)	$ (674)	$ (1,058)	$(28,034)
Total comprehensive loss	(54,362)	(674)	(1,058)	(56,094)
Comprehensive loss attributable to Alliance One International, Inc.	(54,190)	(674)	(1,058)	(55,922)

	Statement of Consolidated Cash Flows March 31, 2015			
(in thousands)	As Previously Reported	Inventory Adjustments	Tax Adjustments	As Restated
Net loss	$(26,302)	$ (674)	$ (1,058)	$(28,034)
Inventories and advances to tobacco suppliers	(4,666)	674	—	(3,992)
Recoverable income taxes	(2,430)	—	1,058	(1,372)

	Statement of Consolidated Operations March 31, 2014			
(in thousands)	As Previously Reported	Inventory Adjustments	Tax Adjustments	As Restated
Cost of goods and services sold	$2,127,880	$ 706	$ —	$2,128,586
Gross profit	226,656	(706)	—	225,950
Operating income	106,219	(706)	—	105,513
Loss before income taxes and other	(60,989)	(706)	—	(61,695)
Income tax expense	40,475	—	766	41,241
Net loss	(101,404)	(706)	(766)	(102,876)
Net loss attributable to Alliance One International, Inc.	(101,061)	(706)	(766)	(102,533)
Loss per share:				
Basic	(11.52)	(0.08)	(0.09)	(11.69)
Diluted	(11.52)	(0.08)	(0.09)	(11.69)

	Consolidated Statement of Comprehensive (Loss) Income March 31, 2014			
(in thousands)	As Previously Reported	Inventory Adjustments	Tax Adjustments	As Restated
Net loss	$(101,404)	$ (706)	$ (766)	$(102,876)
Total comprehensive loss	(84,313)	(706)	(766)	(85,785)

Comprehensive loss attributable to Alliance One International, Inc.	(83,970)	(706)	(766)	(85,442)

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Alliance One International, Inc. and Subsidiaries
(in thousands)

Note 23 - Reconciliation of Previously Reported Amounts to Amounts Revised and Restated (continued)

	Statement of Consolidated Cash Flows March 31, 2014			
(in thousands)	As Previously Reported	Inventory Adjustments	Tax Adjustments	As Restated
Net loss	$(101,404)	$ (706)	$ (766)	$(102,876)
Inventories and advances to tobacco suppliers	168,194	706	—	168,900
Recoverable income taxes	(2,136)	—	766	(1,370)

Statement of Consolidated Stockholders' Equity

(in thousands)	As Previously Reported	Inventory Adjustments	Tax Adjustments	As Restated
Retained Deficit at March 31, 2013	$(80,993)	$ —	$ —	$(80,993)
Net loss	(101,061)	(706)	(766)	(102,533)
Retained Deficit at March 31, 2014	(182,054)	(706)	(766)	(183,526)
Net loss	(26,130)	(674)	(1,058)	(27,862)
Retained Deficit at March 31, 2015	(208,184)	(1,380)	(1,824)	(211,388)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
To the Board of Directors and Stockholders of Alliance One International, Inc.:

We have audited the accompanying consolidated balance sheets of Alliance One International, Inc. and subsidiaries (the "Company") as of March 31, 2016, and 2015, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended March 31, 2016. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule 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, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of March 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2016, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Notes 1 and 22 to the consolidated financial statements, the Company recognized a $106 million non-cash gain in connection with the March 31, 2016 reconsolidation of its Zimbabwe subsidiary. Also, as discussed in Note 1, the Company prospectively adopted a new accounting standard for classification of deferred income taxes as of March 31, 2016.
We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of March 31, 2016, based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated July 11, 2016, expressed an adverse opinion on the Company's internal control over financial reporting because of material weaknesses.

/s/ Deloitte & Touche LLP

Raleigh, North Carolina

July 11, 2016

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures
In connection with the preparation of this Annual Report on Form 10-K, an evaluation was carried out by the Company's management, with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (Exchange Act)) as of March 31, 2016. Disclosure controls and procedures are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures.

Based on this evaluation, our Chief Executive Office and Chief Financial Officer concluded our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) were not effective as of March 31, 2016 as a result of the material weaknesses described below.

Management's Report on Internal Control Over Financial Reporting
Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process, under the supervision of our Chief Executive Officer and Chief Financial Officer, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Our internal control over financial reporting includes those policies and procedures that:

i. pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
ii. provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
iii. provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted an assessment of the effectiveness of the Company's internal control over financial reporting as of March 31, 2016 based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013. Based on that assessment, management believes our internal control over financial reporting was not effective as of March 31, 2016 as a result of the material weaknesses described below.

Our Chief Executive Officer and Chief Financial Officer have concluded that the following material weaknesses in internal control over financial reporting existed at the Kenyan subsidiary as of March 31, 2016:

- Processes and control activities designed to support the amounts of inventory recorded in the general ledger were not effective, were incorrectly applied or were overridden. It appears that local management, through collusion, overrode controls to record fictional inventory balances.

- Processes and control activities designed to support the amounts of deferred crop costs recorded in the general ledger were not effective, were incorrectly applied or were overridden. It appears that local management, through collusion, overrode controls to inappropriately cost redried inventory and understate cost of goods sold.

- Processes and control activities designed to support the revenue transactions recorded in the general ledger were not effective, were incorrectly applied or were overridden. Specifically, revenues were recorded based on estimated transactions and actual transactions were processed outside the general ledger system. As a result revenue recorded did not reflect actual sales transactions and accounts receivable balances were recorded which would not be realized.

ITEM 9A. CONTROLS AND PROCEDURES (AS REVISED) (continued)

Evaluation of Disclosure Controls and Procedures (continued)

Our Chief Executive Officer and Chief Financial Officer have also concluded that the following material weaknesses existed at the regional and corporate levels as of March 31, 2016:

- The Company's regional review of operations at African origins was ineffective due to the lack of adequate qualified resources to appropriately examine and investigate financial results. Although the financial information from the Kenya origin was reviewed on a timely basis, the regional review did not incorporate the qualitative and operational context needed to perform an adequate review, which allowed the misstated balances to build up over extended periods of time.
- The Company's fraud risk assessment was not adequately designed or implemented to address the risks of fraud in certain origins. The Company's assessment did not determine that certain regions warranted additional control activities to respond to additional fraud risks.
- The Company's controls applicable to the accounting for the reconsolidation of its Zimbabwe subsidiary did not operate effectively.

Changes in Internal Control over Financial Reporting

Other than described below, during the three months ended March 31, 2016, there were no changes that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

The Company has completed or undertaken plans to remediate these control deficiencies that constituted material weaknesses:

- The Kenyan management, including the Head of Operations, Deputy Managing and Finance Director, and Financial Controller believed to have been key directors of the collusion are no longer with the Company.
- The Company is in the process of standardizing key controls. As part of this process, which is being led by Corporate Audit Services, the deficient control activities at the Kenya location will be replaced with the standardized key control activities. The control activities in Kenya will be tested for design and operating effectiveness in fiscal 2017.
- Two new regional controller positions have been created for the Africa region. These positions will add an additional layer of review and oversight of African entities, and will function as "super" financial directors of three entities each, as well as being part of the regional team. The entities for which each position is responsible for will rotate every two years.
- This African regional controller team will perform new analyses, which may include but are not limited to trend analyses over time, crop information and inventory turns (including by comparison to other origins within the region) to corroborate accounting amounts, sign off on quarterly packet reviews and account reconciliations, and monitoring controls around the financial close process. Additionally, the regional controllers will regularly visit origins for their work to help assess monthly and quarterly financial processes.
- The Company will enhance regional review procedures at the Corporate level with the implementation of semi-annual regional risk management committee meetings to review business risks and controls, and results of the region based on new analyses and trends as well.
- The Company's fraud risk assessment of a location will be included as a factor in determining the scope of our SOX compliance program, in order to more specifically tailor the design of internal control over financial reporting to mitigate the risk of material misstatement caused by fraud or otherwise.
- The Company modified its compliance program with the hiring of a new Corporate Compliance Director in January 2016. This modification bifurcated management of the compliance program from the Chief Accounting Officer's role and reports directly to the Chief Financial Officer. This position is dedicated to enhance and strengthen our global compliance environment. This position will also oversee the global administration and enforcement of our compliance

policies and procedures.

- The Company will continue to engage third party technical expertise to address complex and unusual transactions in the future.

In light of the material weakness referred to above, we performed additional analyses and procedures in order to conclude that our consolidated financial statements in this Form 10-K for the year ended March 31, 2016 are fairly presented, in all material respects, in accordance with US GAAP.

The effectiveness of our internal control over financial reporting as of March 31, 2016 has been audited by Deloitte & Touche, LLP, an independent registered public accounting firm, as stated in their attestation report that follows.

ITEM 9A. CONTROLS AND PROCEDURES (continued)

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Alliance One International, Inc.:

We have audited Alliance One International, Inc. and subsidiaries (the "Company's") internal control over financial reporting as of March 31, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on that risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company’s annual or interim financial statements will not be prevented or detected on a timely basis. The following material weaknesses have been identified and included in management's assessment:

Control Activities - The design, implementation and operation of process level controls in the Kenya location were ineffective.

Monitoring - The Company’s regional monitoring controls were ineffective.

Risk Assessment - The Company’s risk assessment was not sufficient to address risks of material misstatement due to fraud.

Accounting for Reconsolidation of Subsidiary - The Company's controls applicable to the accounting for the reconsolidation of its Zimbabwe subsidiary did not operate effectively.

These material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the consolidated financial statements and financial statement schedule as of and for the year ended March 31, 2016, of the Company and this report does not affect our report on such financial statements and financial statement schedule.

In our opinion, because of the effect of the material weaknesses identified above on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of March 31, 2016, based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended March 31, 2016, of the Company and our report dated July 11, 2016 expressed an unqualified opinion on those consolidated financial statements and financial statement schedule and included an explanatory paragraph regarding recognition of a non-cash gain in connection with the reconsolidation of its Zimbabwe subsidiary and the Company's adoption of a new accounting standard for classification of deferred taxes.

/s/ Deloitte & Touche LLP

Raleigh, North Carolina
July 11, 2016

ITEM 9B. OTHER INFORMATION

On July 6, 2016, the Company entered into the Fifth Amendment to the Amended and Restated Credit Agreement (the “Fifth Amendment"), which amended the Credit Agreement dated as of July 2, 2009, as amended and restated as of August 1, 2013, between the Company, certain of its subsidiaries, the lenders party thereto and Deutsche Bank Trust Company Americas, as administrative agent (as so amended and restated, the “Credit Agreement”). The Fifth Amendment clarified that for the purpose of certain covenants under the Credit Agreement up to $100 million of debt of the Company’s MTC subsidiary in respect of loans under a credit facility with a third-party lender funded by the Company’s Intabex subsidiary pursuant to a participation interest in such loans or an assignment in respect of such loans consistent with past practices prior to the date of the Fifth Amendment (so long as such loan proceeds are used in connection with the purchase, processing, exporting and financing of the contract growing and buying of tobacco) shall be deemed to be debt owed by MTC to Intabex (and not the third-party lender) as intercompany debt regardless of the presentation of such debt in the consolidated financial statements of the Company in accordance with GAAP, and waived any noncompliance by the Company under the Credit Agreement that may have occurred prior to the effectiveness of the Fifth Amendment as a result of such debt not being treated as intercompany debt, as well as the Company’s failure to deliver audited financial statements for the fiscal year ended March 31, 2016 within the time period required under the Credit Agreement if such audited financial statements are delivered by July 19, 2016.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information concerning directors and persons nominated to become directors of Alliance One International, Inc. included in the Proxy Statement under the headings “Board of Directors - Proposal One-Election of Directors” and “Board of Directors - Director Biographies” is incorporated herein by reference. The information concerning the executive officers of the Company included in Part I, Item I of this Annual Report on Form 10-K under the heading “Business - Executive Officers of Alliance One International, Inc.” is incorporated herein by reference.

Audit Committee
The information included in the Proxy Statement under the headings “Board of Directors - Board Committees and Membership” and “Audit Matters” is incorporated herein by reference.

Section 16(a) Compliance
The information included in the Proxy Statement under the heading “Ownership of Equity Securities - Section 16(a) Beneficial Ownership Reporting Compliance” is incorporated herein by reference.

Code of Business Conduct
The information included in the Proxy Statement under the heading “Governance of the Company - Code of Business Conduct” is incorporated herein by reference.

Corporate Governance
The Board of Directors has adopted corporate governance guidelines and charters for its Audit Committee, Executive Compensation Committee and Governance and Nominating Committee. These governance documents are available on our website, www.aointl.com, or by written request, without charge, addressed to: Corporate Secretary, Alliance One International, Inc., 8001 Aerial Center Parkway, Morrisville, NC 27560-8417.

ITEM 11. EXECUTIVE COMPENSATION

The information contained in the Proxy Statement under the captions “Board of Directors – Compensation of Directors” and “Executive Compensation” is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

EQUITY COMPENSATION PLAN INFORMATION
as of March 31, 2016

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a) (1)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b) (2)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a)) (c) (3)
Equity Compensation Plans Approved by Security Holders	611,860	$60.70	170,982
Equity Compensation Plans Not Approved by Security Holders	—	Not Applicable	—
Total	611,860	$60.70	170,982

1) These shares consist of 603,485 stock options, restricted stock units and performance share units issued and outstanding under the 2007 Incentive Plan and 8,375 stock options issued and outstanding under prior plans of the Company and its predecessors.

(2) The weighted-average exercise price does not take into account restricted stock units or performance share units.

(3) The Incentive Plan allows for these shares to be issued in a variety of forms, including stock options, stock appreciation rights, stock awards, stock units, performance awards and incentive awards. Further, the Number of Securities Remaining Available for Future Issuance as set forth in this column (c) will increase by the Number of Securities to be Issued (as reflected in column (a)) which are associated with options, rights and warrants plus other stock awards that are forfeited from time to time.

The information contained in the Proxy Statement under the caption "Ownership of Equity Securities," together with the information included herein is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information contained in the Proxy Statement under the captions “Governance of the Company -Determination of Independence of Directors,” “Board of Directors - Independence,” “Board of Directors – Compensation of Directors,” and "Executive Compensation - Compensation Discussion and Analysis - Employment and Consulting Agreements" is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information contained in the Proxy Statement under the captions “Audit Matters - Policy for Pre-Approval of Audit and Non-Audit Services” and “Audit Matters - Audit and Non-Audit Fees” is incorporated herein by reference.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a)(1) and (2)

LIST OF FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

Statements of Consolidated Operations –Years ended March 31, 2016, 2015 and 2014
Statements of Consolidated Comprehensive Income (Loss) - Years ended March 31, 2016, 2015 and 2014
Consolidated Balance Sheets - March 31, 2015 and 2015
Statements of Consolidated Stockholders' Equity - Years ended March 31, 2016, 2015 and 2014
Statements of Consolidated Cash Flows - Years ended March 31, 2016, 2015 and 2014
Notes to Consolidated Financial Statements
Report of Deloitte & Touche LLP
Management's Report on Internal Control Over Financial Reporting
Report of Independent Registered Public Accounting Firm on Internal Control
Financial Statement Schedules:
Schedule II - Valuation and Qualifying Accounts

(b) Exhibits
The following documents are filed as exhibits to this Form 10 K pursuant to Item 601 of Regulation S K:

3.01	Amended and Restated Articles of Incorporation of Alliance One International, Inc., as amended, incorporated by reference to Exhibit 3.01 of the Quarterly Report on Form 10-Q for the period ended June 30, 2015, filed August 5, 2015 (SEC File No. 001-13684).
3.02	Amended and Restated Bylaws of Alliance One International, Inc., incorporated by reference to Exhibit 3.2 of the Current Report on Form 8-K, filed June 29, 2015 (SEC File No. 001-13684).
4.01	Specimen of Common Stock certificate incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K, filed June 29, 2015 (SEC File No. 001-13684).
4.02	Indenture dated as of August 1, 2013 among Alliance One International, Inc., Law Debenture Trust Company of New York, as trustee, Law Debenture Trust Company of New York, as collateral trustee, and Deutsche Bank Trust Company Americas, as registrar and paying agent, relating to 9.875% Senior Secured Second Lien Notes due 2021, incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K dated August 1, 2013 of Alliance One International, Inc. (SEC File No. 001-13684).
10.01	Amendment and Restatement Agreement dated as of July 26, 2013 among Alliance One International, Inc., Intabex Netherlands B.V., Alliance One International AG, the Lenders party thereto, and Deutsche Bank Trust Company Americas, as administrative agent, incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K dated August 1, 2013 of Alliance One International, Inc. (SEC File No. 001-13684).
10.02	First Amendment to Amended and Restated Credit Agreement dated as of May 30, 2014 among Alliance One International, Inc., Intabex Netherlands B.V., Alliance One International AG, the Lenders party thereto, and Deutsche Bank Trust Company Americas, as administrative agent, incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q for the period ended June 30, 2014 (SEC File No. 001-13684).
10.03	

	Second Amendment to Amended and Restated Credit Agreement dated as of February 6, 2015 among Alliance One International, Inc., Intabex Netherlands B.V., Alliance One International AG, the Lenders party thereto, and Deutsche Bank Trust Company Americas, as administrative agent, incorporated by reference to Exhibit 10.03 to the Annual Report on Form 10-K for the year ended March 31, 2015, filed June 8, 2015 (SEC File No. 001-13684).
10.04	Third Amendment to Amended and Restated Credit Agreement dated as of June 2, 2015 among Alliance One International, Inc., Intabex Netherlands B.V., Alliance One International AG, the Lenders party thereto, and Deutsche Bank Trust Company Americas, as administrative agent, incorporated by reference to Exhibit 10.04 to the Annual Report on Form 10-K for the year ended March 31, 2015, filed June 8, 2015 (SEC File No. 001-13684).
10.05	Amended and Restated Receivables Purchase Agreement dated as of March 30, 2012 among Alliance One International, Inc., Finacity Receivables 2006-2, LLC and Finacity Corporation, incorporated by reference to Exhibit 10.31 to Alliance One International, Inc.'s Annual Report on Form 10-K for the year ended March 31, 2012, filed June 13, 2012 (SEC File No. 001-13684).

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES (continued)
(b) Exhibits (continued)

10.06	Second Amended and Restated Receivables Purchase Agreement dated as of March 30, 2012 among Alliance One International AG, Finacity Receivables 2006-2, LLC and Finacity Corporation, incorporated by reference to Exhibit 10.32 to Alliance One International, Inc.'s Annual Report on Form 10-K for the year ended March 31, 2012, filed June 13, 2012 (SEC File No. 001-13684).
10.07	Second Amended and Restated Receivables Sale Agreement dated as of March 30, 2012 among Finacity Receivables 2006-2, LLC, Finacity Corporation, Alliance One International AG, Norddeutsche Landesbank Girozentrale, Standard Chartered Bank, the other Purchaser Agents from time to time party thereto, the Bank Purchasers from time to time party thereto, Hannover Funding Company LLC, and the other Conduit Purchasers from time to time party thereto, incorporated by reference to Exhibit 10.33 to Alliance One International, Inc.'s Annual Report on Form 10-K for the year ended March 31, 2012, filed June 13, 2012 (SEC File No. 001-13684).
10.08	Amended and Restated Alliance One International, Inc. 2007 Incentive Plan, incorporated by reference to Appendix A to the definitive proxy statement of Alliance One International, Inc. filed on July 11, 2011 (SEC File No. 001-13684).*
10.09	Form of Restricted Stock Unit Agreement, incorporated by reference to Exhibit 10.2 to Alliance One International, Inc.’s Quarterly Report on Form 10-Q for the period ended December 31, 2010, filed February 4, 2011 (SEC File No. 001-13684).*
10.10	Form of Restricted Stock Unit Agreement (Supplemental Award), incorporated by reference to Exhibit 10.3 to Alliance One International, Inc.’s Quarterly Report on Form 10-Q for the period ended December 31, 2010, filed February 4, 2011 (SEC File No. 001-13684).*
10.11	Form of Performance-based Stock Unit Award Agreement, incorporated by reference to Exhibit 10.1 to Alliance One International, Inc.’s Quarterly Report on Form 10-Q for the period ended December 31, 2010, filed February 4, 2011 (SEC File No. 001-13684).*
10.12	Form of Non-Qualified Stock Option Award Agreement incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K, filed on March 28, 2011 (SEC File No 001-13684).*
10.13	DIMON Incorporated 2003 Incentive Plan, incorporated by reference to Exhibit 10.14 of DIMON’s Annual Report on Form 10-K for the year ended March 31, 2004, filed June 10, 2004 (SEC File No. 001-13684).*
10.14	Alliance One International, Inc. Pension Equity Plan (amended and restated effective January 1, 2009), incorporated by reference to Exhibit 10.04 to Alliance One International, Inc.’s Quarterly Report on Form 10-Q for the period ended December 31, 2008, filed February 17, 2009 (SEC File No. 001-13684).*
10.15	Standard Commercial Corporation Supplemental Retirement Plan, as Amended and Restated for Benefits Accrued after 2004, incorporated by reference to Alliance One International, Inc.’s Current Report on Form 8-K, filed January 7, 2009 (SEC File No. 001-13684).*
10.16	Alliance One International, Inc. Supplemental Executive Retirement Plan (amended and restated as of January 1, 2009), incorporated by reference to Exhibit 10.1 to Alliance One International, Inc.’s Amendment No. 1 to Form 10-Q/A for the period ended December 31, 2008, filed March 9, 2009 (SEC File No. 001-13684).*
10.17	

	Alliance One International, Inc. Supplemental Retirement Account Plan (amended and restated as of January 1, 2009), incorporated by reference to Exhibit 10.6 to Alliance One International, Inc.'s Quarterly Report on Form 10-Q for the period ended December 31, 2008, filed February 17, 2009 (SEC File No. 001-13684).*
10.18	Executive Employment Agreement dated as of March 1, 2013 between Alliance One International, Inc. and J. Pieter Sikkel, incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed February 6, 2013 (SEC File No. 001-13684).*
10.19	Summary of director and executive officer compensation arrangements (filed herewith).*
10.20	Description of the material terms of the Alliance One International, Inc. management incentive plan as implemented by the Executive Compensation Committee of the Board of Directors, incorporated by reference to the text appearing under the heading "Executive Compensation—Compensation Discussion and Analysis—Incentives—Annual Incentives" beginning on page 25 of Alliance One International, Inc.'s definitive proxy statement on Schedule 14A, filed July 8, 2011 (SEC File No. 001-13684) *

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES (continued)
(b) Exhibits (continued)

12	Ratio of Earnings to Fixed Charges (filed herewith).
21	List of Subsidiaries (filed herewith).
23.1	Consent of Deloitte & Touche LLP (filed herewith).
31.01	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.02	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
101	The following materials from the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2016, formatted in XBRL: (i) Statements of Consolidated Operations for the three years ended March 31, 2016, 2015 and 2014; (ii) Consolidated Statements of Comprehensive Income (Loss) for the three years ended March 31, 2016, 2015 and 2014; (iii) Consolidated Balance Sheets as of March 31, 2016 and 2015; (iv) Statements of Consolidated Stockholders' Equity for the three years ended March 31, 2016, 2015 and 2014; (v) Statements of Consolidated Cash Flows for the three years ended March 31, 2016, 2015 and 2014; (vi) Notes to Consolidated Financial Statements; and (vii) Schedule II - Valuation and Qualifying Accounts (submitted herewith)

* Indicates management contract or compensatory plan or arrangement.

Instruments with respect to long-term debt, the amount of securities authorized thereunder being less than ten percent of the Company’s consolidated assets, have been omitted and the Company agrees to furnish such instruments to the Securities and Exchange Commission upon request.

(c) Financial Statement Schedules:
Schedule II – Valuation and Qualifying Accounts appears on the following page of this Form 10-K. All other schedules are not required under the related

instructions
or are not
applicable
and
therefore
have been
omitted.

SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS
ALLIANCE ONE INTERNATIONAL, INC. AND SUBSIDIARIES

COL. A	COL. B	COL. C ADDITIONS		COL. D	COL. E
		(1)	(2)		
DESCRIPTION (in thousands)	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
Year ended March 31, 2014					
Deducted from asset accounts:					
Allowance for doubtful accounts	$3,370	$551	$—	$503 (A)	$3,418
Valuation allowance on deferred tax assets	$160,232	$24,938	$(3,360) (B)	$(33) (A)	$181,843
Year ended March 31, 2015					
Deducted from asset accounts:					
Allowance for doubtful accounts	$3,418	$12,456	$—	$1,921 (A)	$13,953
Valuation allowance on deferred tax assets	$181,843	$(14,926) (C)	$3,999 (B)	$1,112 (A)	$169,804
Year ended March 31, 2016					
Deducted from asset accounts:					
Allowance for doubtful accounts	$13,953	$(169)	$—	$(800) (A)	$12,984
Valuation allowance on deferred tax assets	$169,804	(47,103) (C)	$(3,370) (B)	813 (A)	$118,518

(A) Currency translation and direct write off.
(B) Accumulated other comprehensive loss
(C) Deferred tax on unremitted earnings of foreign subsidiaries

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on July 11, 2016.

ALLIANCE ONE INTERNATIONAL, INC. (Registrant)

/s/ J. Pieter Sikkel
By______________________________
J. Pieter Sikkel
President and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on July 11, 2016.

/s/ J. Pieter Sikkel
By______________________________
J. Pieter Sikkel
President and Chief Executive Officer
(Principal Executive Officer)

/s/ Joel L. Thomas
By______________________________
Joel L. Thomas
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

/s/ Todd B. Compton
By______________________________
Todd B. Compton
Vice President - Controller
(Principal Accounting Officer)

/s/ Joyce L. Fitzpatrick
By______________________________
Joyce L. Fitzpatrick
Director

/s/ C. Richard Green, Jr.
By______________________________
C. Richard Green Jr.
Director

/s/ Nigel G. Howard
By______________________________

/s/ Carl L. Hausmann
By______________________________
Carl L. Hausmann
Director

/s/ Jeffrey A. Eckmann
By______________________________
Jeffrey A. Eckmann
Director

/s/ Norman A. Scher
By______________________________
Norman A. Scher
Director

/s/ John D. Rice
By______________________________
John D. Rice
Director

/s/ Martin R. Wade III
By______________________________
Martin R. Wade III
Director

Nigel G. Howard
Director

/s/ Mark W. Kehaya
By____
Mark W. Kehaya
Chairman

EXHIBIT INDEX
Exhibits

3.01	Amended and Restated Articles of Incorporation of Alliance One International, Inc., as amended, incorporated by reference to Exhibit 3.01 of the Quarterly Report on Form 10-Q for the period ended June 30, 2015, filed August 5, 2015 (SEC File No. 001-13684).
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10.09	Form of Restricted Stock Unit Agreement, incorporated by reference to Exhibit 10.2 to Alliance One International, Inc.’s Quarterly Report on Form 10-Q for the period ended December 31, 2010, filed February 4, 2011 (SEC File No. 001-13684).*
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10.12	Form of Non-Qualified Stock Option Award Agreement incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K, filed on March 28, 2011 (SEC File No 001-13684).*
10.13	DIMON Incorporated 2003 Incentive Plan, incorporated by reference to Exhibit 10.14 of DIMON’s Annual Report on Form 10-K for the year ended March 31, 2004, filed June 10, 2004 (SEC File No. 001-13684).*

EXHIBIT INDEX
Exhibits (continued)

10.14	Alliance One International, Inc. Pension Equity Plan (amended and restated effective January 1, 2009), incorporated by reference to Exhibit 10.04 to Alliance One International, Inc.’s Quarterly Report on Form 10-Q for the period ended December 31, 2008, filed February 17, 2009 (SEC File No. 001-13684).*
10.15	Standard Commercial Corporation Supplemental Retirement Plan, as Amended and Restated for Benefits Accrued after 2004, incorporated by reference to Alliance One International, Inc.’s Current Report on Form 8-K, filed January 7, 2009 (SEC File No. 001-13684).*
10.16	Alliance One International, Inc. Supplemental Executive Retirement Plan (amended and restated as of January 1, 2009), incorporated by reference to Exhibit 10.1 to Alliance One International, Inc.’s Amendment No. 1 to Form 10-Q/A for the period ended December 31, 2008, filed March 9, 2009 (SEC File No. 001-13684).*
10.17	Alliance One International, Inc. Supplemental Retirement Account Plan (amended and restated as of January 1, 2009), incorporated by reference to Exhibit 10.6 to Alliance One International, Inc.’s Quarterly Report on Form 10-Q for the period ended December 31, 2008, filed February 17, 2009 (SEC File No. 001-13684).*

10.18	Executive Employment Agreement dated as of March 1, 2013 between Alliance One International, Inc. and J. Pieter Sikkel, incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed February 6, 2013 (SEC File No. 001-13684).*
10.19	Summary of director and executive officer compensation arrangements (file herewith).*
10.20	Description of the material terms of the Alliance One International, Inc. management incentive plan as implemented by the Executive Compensation Committee of the Board of Directors, incorporated by reference to the text appearing under the heading "Executive Compensation—Compensation Discussion and Analysis—Incentives—Annual Incentives" beginning on page 25 of Alliance One International, Inc.'s definitive proxy statement on Schedule 14A, filed July 8, 2011 (SEC File No. 001-13684).*
12	Ratio of Earnings to Fixed Charges (filed herewith).
21	List of Subsidiaries (filed herewith).
23.1	Consent of Deloitte & Touche LLP (filed herewith).
31.01	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.02	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
101	The following materials from the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2016, formatted in XBRL: (i) Statements of Consolidated Operations for the three years ended March 31, 2016, 2015 and 2014; (ii) Consolidated Statements of Comprehensive Income (Loss) for the three years ended March 31, 2016, 2015 and 2014; (iii) Consolidated Balance Sheets as of March 31, 2016 and 2015; (iv) Statements of Consolidated Stockholders' Equity for the three years ended March 31, 2016, 2015 and 2014; (v) Statements of Consolidated Cash Flows for the three years ended March 31, 2016, 2015 and 2014; (vi) Notes to Consolidated Financial Statements; and (vii) Schedule II - Valuation and Qualifying Accounts (submitted herewith)

* Indicates management contract or compensatory plan or arrangement.

Instruments with respect to long-term debt, the amount of securities authorized thereunder being less than ten percent of the Company's consolidated assets, have been omitted and the Company agrees to furnish such instruments to the Securities and Exchange Commission upon request.