

FIRST AMERICAN CORP
Form 10-Q
January 08, 2007
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2006

OR

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

For the transition period from _____ to _____

Commission file number 001-13585

THE FIRST AMERICAN CORPORATION

(Exact name of registrant as specified in its charter)

Incorporated in California
(State or other jurisdiction of

incorporation or organization)

95-1068610
(I.R.S. Employer

Identification No.)

1 First American Way, Santa Ana, California
(Address of principal executive offices)

(714) 250-3000

92707-5913
(Zip Code)

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(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

Large accelerated filer Accelerated Filer Non-accelerated filer

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY

PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports to be filed by Section 12,13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

On December 29, 2006, there were 96,483,510 Common shares outstanding.

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THE FIRST AMERICAN CORPORATION
AND SUBSIDIARY COMPANIES
INFORMATION INCLUDED IN REPORT

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Item 1A and Items 3 – 5 of Part II have been omitted because they are not applicable with respect to the current reporting period.	

CERTAIN STATEMENTS MADE IN THIS QUARTERLY REPORT ON FORM 10-Q INCLUDING THOSE RELATING TO PENSION PLAN CONTRIBUTIONS; THE DIFFERENCE BETWEEN THE COMPANY'S ACTUARY'S ESTIMATE OF LIKELY LOSS EXPOSURE AND THE COMPANY'S PROJECTED IBNR BALANCE; THE EFFECT OF CLASS ACTIONS, OTHER LITIGATION, INVESTIGATIONS AND REGULATORY MATTERS; AND CASH REQUIREMENTS ARE FORWARD LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933 AS AMENDED, AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. THESE FORWARD-LOOKING STATEMENTS MAY CONTAIN THE WORDS BELIEVE, ANTICIPATE, EXPECT, PREDICT, ESTIMATE, PROJECT, WILL BE, WILL CONTINUE, WILL LIKELY RESULT, OR OTHER SIMILAR WORDS AND PHRASES. RISKS AND UNCERTAINTIES EXIST THAT MAY CAUSE RESULTS TO DIFFER MATERIALLY FROM THOSE SET FORTH IN THESE FORWARD-LOOKING STATEMENTS. FACTORS THAT COULD CAUSE THE ANTICIPATED RESULTS TO DIFFER FROM THOSE DESCRIBED IN THE FORWARD-LOOKING STATEMENTS INCLUDE: INTEREST RATE FLUCTUATIONS; CHANGES IN THE PERFORMANCE OF THE REAL ESTATE MARKETS; ACCESS TO PUBLIC RECORDS AND OTHER DATA; GENERAL VOLATILITY IN THE CAPITAL MARKETS; CHANGES IN APPLICABLE GOVERNMENT REGULATIONS; HEIGHTENED SCRUTINY BY LEGISLATORS AND REGULATORS OF THE COMPANY'S TITLE INSURANCE AND SERVICES SEGMENT AND CERTAIN OTHER OF THE COMPANY'S BUSINESSES; CONSOLIDATION AMONG THE COMPANY'S SIGNIFICANT CUSTOMERS AND COMPETITORS; THE COMPANY'S CONTINUED ABILITY TO IDENTIFY BUSINESSES TO BE ACQUIRED; CHANGES IN THE COMPANY'S ABILITY TO INTEGRATE BUSINESSES WHICH IT ACQUIRES; AND OTHER FACTORS DESCRIBED IN PART I, ITEM 1A OF THE COMPANY'S ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2005 AND IN PART II, ITEM 1A OF THE COMPANY'S QUARTERLY REPORTS ON FORM 10-Q FOR THE RESPECTIVE QUARTERS ENDED MARCH 31, 2006 AND JUNE 30, 2006, IN ALL CASES AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THE FORWARD-LOOKING STATEMENTS SPEAK ONLY AS OF THE DATE THEY ARE MADE. THE COMPANY DOES NOT UNDERTAKE TO UPDATE FORWARD-LOOKING STATEMENTS TO REFLECT CIRCUMSTANCES OR EVENTS THAT OCCUR AFTER THE DATE THE FORWARD-LOOKING STATEMENTS ARE MADE.

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PART I: FINANCIAL INFORMATION

Item 1: Financial Statements.

THE FIRST AMERICAN CORPORATION

AND SUBSIDIARY COMPANIESCondensed Consolidated Balance Sheets

(in thousands)

(unaudited)

	September 30, 2006	December 31, 2005 (as restated)
Assets		
Cash and cash equivalents	\$ 1,372,577	\$ 1,561,144
Accounts and accrued income receivable, net	564,279	486,933
Income taxes receivable	13,572	
Investments:		
Deposits with savings and loan associations and banks	128,231	90,383
Debt securities	1,101,434	1,100,728
Equity securities	50,229	47,101
Other long-term investments	556,195	394,367
	1,836,089	1,632,579
Loans receivable, net	101,252	94,812
Property and equipment, net	722,852	685,522
Title plants and other indexes	570,361	539,083
Goodwill	2,294,477	2,092,612
Other intangible assets, net	266,640	247,117
Other assets	280,959	258,839
	\$ 8,023,058	\$ 7,598,641
Liabilities and Stockholders Equity		
Demand deposits	\$ 721,393	\$ 693,175
Accounts payable and accrued liabilities	979,937	1,027,893
Deferred revenue	755,127	762,157
Reserve for known and incurred but not reported claims	921,418	671,054

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Income taxes payable	2,847	17,386
Deferred income taxes		13,009
Notes and contracts payable	889,838	848,569
Deferrable interest subordinated notes	100,000	100,000
	4,370,560	4,133,243
Minority interests in consolidated subsidiaries	496,756	459,665
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$1 par value Authorized - 500 shares; outstanding - none		
Common stock, \$1 par value:		
Authorized - 180,000 shares		
Outstanding - 95,999 and 95,860 shares	95,999	95,860
Additional paid-in capital	973,702	956,720
Retained earnings	2,210,828	2,078,969
Accumulated other comprehensive loss	(124,787)	(125,816)
	3,155,742	3,005,733
	\$ 8,023,058	\$ 7,598,641

See notes to condensed consolidated financial statements.

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THE FIRST AMERICAN CORPORATION

AND SUBSIDIARY COMPANIESCondensed Consolidated Statements of Income and Comprehensive Income

(in thousands, except per share amounts)

(unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2006	2005 (as restated)	2006	2005 (as restated)
Revenues				
Operating revenues	\$ 2,106,322	\$ 2,103,153	\$ 6,158,708	\$ 5,691,610
Investment and other income	61,230	58,196	171,333	152,527
Gain on stock issued by a subsidiary	478	5,283	8,914	8,049
Net realized investment (losses)gains	(58)	1,550	(11)	4,455
	2,167,972	2,168,182	6,338,944	5,856,641
Expenses				
Salaries and other personnel costs	646,033	629,012	1,926,613	1,780,071
Premiums retained by agents	622,898	607,239	1,819,095	1,632,863
Other operating expenses	494,132	461,064	1,416,881	1,240,415
Provision for policy losses and other claims	131,257	126,186	527,361	316,820
Depreciation and amortization	51,856	38,049	150,514	110,998
Premium taxes	17,584	16,954	52,550	45,897
Interest	17,320	15,647	49,989	39,603
	1,981,080	1,894,151	5,943,003	5,166,667
Income before income taxes and minority interests	186,892	274,031	395,941	689,974
Income taxes	72,900	100,900	146,800	254,900
Income before minority interests	113,992	173,131	249,141	435,074
Minority interests	23,563	25,139	65,436	71,246
Net income	90,429	147,992	183,705	363,828
Other comprehensive income (loss), net of tax				
Unrealized gain (loss) on securities	7,798	(2,452)	1,028	(4,803)
Minimum pension liability adjustment	7,798	(2,452)	1,028	(4,803)
Comprehensive income	\$ 98,227	\$ 145,540	\$ 184,733	\$ 359,025
Net income per share (Note 6):				
Basic	\$ 0.94	\$ 1.55	\$ 1.91	\$ 3.88

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Diluted	\$	0.92	\$	1.50	\$	1.86	\$	3.75
Cash dividends per share	\$.18	\$.18	\$.54	\$.54
Weighted average number of shares (Note 6):								
Basic		96,054		95,341		96,159		93,852
Diluted		98,482		98,768		98,878		97,307

See notes to condensed consolidated financial statements.

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THE FIRST AMERICAN CORPORATION

AND SUBSIDIARY COMPANIESCondensed Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

	For the Nine Months Ended September 30,	
	2006	2005 (as restated)
Cash flows from operating activities:		
Net income	\$ 183,705	\$ 363,828
Adjustments to reconcile net income to cash provided by operating activities-		
Provision for policy losses and other claims	527,361	316,820
Depreciation and amortization	150,514	110,998
Minority interests in net income	65,436	71,246
Net realized investment gains	(8,903)	(12,504)
Stock-based compensation expense	21,027	1,541
Other, net	(30,864)	(49,413)
Changes in assets and liabilities excluding effects of company acquisitions and noncash transactions-		
Claims paid, net of recoveries	(268,932)	(259,056)
Net change in income tax accounts	(41,006)	153,914
Increase in accounts and accrued income receivable	(62,701)	(78,000)
Decrease in accounts payable and accrued liabilities		