

FIRST AMERICAN CORP
Form 10-Q
May 04, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2009

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)

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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)	92707-5913 (Zip Code)
(714) 250-3000 (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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated Filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
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 April 27, 2009, there were 93,225,532 Common shares outstanding.

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THE FIRST AMERICAN CORPORATION
AND SUBSIDIARY COMPANIES
INFORMATION INCLUDED IN REPORT

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Items 3 through 5 of Part II have been omitted because they are not applicable with respect to the current reporting period.

CERTAIN STATEMENTS IN THIS QUARTERLY REPORT ON FORM 10-Q, INCLUDING BUT NOT LIMITED TO THOSE RELATING TO:

THE IMPACT OF THE ADOPTION OF RECENT OR PENDING ACCOUNTING PRONOUNCEMENTS;

THE CONSUMMATION OF THE PROPOSED SPIN-OFF TRANSACTION ANNOUNCED JANUARY 15, 2008 AND THE TIMING, FORM AND TAX FREE NATURE THEREOF;

LIABILITY FOR THE DISPOSITION OF ESCROW AND TRUST DEPOSITS;

THE EFFECT OF CURRENT MARKET VOLATILITY ON GOODWILL;

ESTIMATED AMORTIZATION EXPENSE FOR CERTAIN FINITE-LIVED INTANGIBLE ASSETS;

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FUTURE COMPANY CONTRIBUTIONS TO ITS PENSION PLAN;

THE EFFECT OF LAWSUITS, REGULATORY AUDITS AND INVESTIGATIONS AND OTHER LEGAL PROCEEDINGS ON THE COMPANY'S FINANCIAL CONDITION, RESULTS OF OPERATIONS OR CASH FLOWS;

CHANGES IN UNRECOGNIZED TAX POSITIONS;

THE EFFECT OF CHANGES TO STATE TAX LAWS;

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THE EFFECTS OF THE UNCERTAINTY IN THE REAL ESTATE AND MORTGAGE MARKETS, INCLUDING THE IMPACT ON THE COMPANY S REVENUES, CLAIMS, EARNINGS, LIQUIDITY, LINES OF BUSINESS, CUSTOMERS AND DEMAND FOR THE COMPANY S PRODUCTS AND SERVICES;

THE COMPANY S COST CONTROL INITIATIVES, BRAND STRATEGY, AGENCY RELATIONSHIPS, OFFSHORE LEVERAGE AND SALES EFFORTS AND THE EFFECTS THEREOF;

THE NON-RECURRENCE OF INCREASES IN CLAIMS ASSOCIATED WITH THE COMPANY S TAX SERVICE OUTSOURCING BUSINESS;

THE REALIZATION OF TAX BENEFITS ASSOCIATED WITH CERTAIN LOSSES;

THE SUFFICIENCY OF THE COMPANY S RESOURCES TO SATISFY OPERATIONAL CASH REQUIREMENTS;

FUTURE PAYMENT OF DIVIDENDS; AND

POTENTIAL WRITE-DOWNS OF THE COMPANY S INVESTMENTS AND THE EFFECTS THEREOF; 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, PLAN, 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;

LIMITATIONS ON 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;

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THE INABILITY TO CONSUMMATE THE SPIN-OFF TRANSACTION OR TO CONSUMMATE IT IN THE FORM ORIGINALLY PROPOSED AS A RESULT OF, AMONG OTHER FACTORS, THE INABILITY TO OBTAIN NECESSARY REGULATORY APPROVALS, THE FAILURE TO OBTAIN THE FINAL APPROVAL OF THE COMPANY'S BOARD OF DIRECTORS, THE INABILITY TO OBTAIN THIRD PARTY CONSENTS OR UNDESIRABLE CONCESSIONS OR ACCOMMODATIONS REQUIRED TO BE MADE TO OBTAIN SUCH CONSENTS, THE LANDSCAPE OF THE REAL ESTATE AND MORTGAGE CREDIT MARKETS, MARKET CONDITIONS, THE INABILITY TO TRANSFER ASSETS INTO THE ENTITY BEING SPUN-OFF OR UNFAVORABLE REACTIONS FROM CUSTOMERS, RATINGS AGENCIES, INVESTORS OR OTHER INTERESTED PERSONS;

THE INABILITY TO REALIZE THE BENEFITS OF THE PROPOSED SPIN-OFF TRANSACTION AS A RESULT OF THE FACTORS DESCRIBED IMMEDIATELY ABOVE, AS WELL AS, AMONG OTHER FACTORS, INCREASED BORROWING COSTS, COMPETITION BETWEEN THE RESULTING COMPANIES, UNFAVORABLE REACTIONS FROM EMPLOYEES, THE INABILITY OF THE FINANCIAL SERVICES COMPANY TO PAY THE ANTICIPATED LEVEL OF DIVIDENDS, THE TRIGGERING OF RIGHTS AND OBLIGATIONS BY THE TRANSACTION OR ANY LITIGATION ARISING OUT OF OR RELATED TO THE SEPARATION;

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CONSOLIDATION AMONG THE COMPANY'S SIGNIFICANT CUSTOMERS AND COMPETITORS;

CHANGES IN THE COMPANY'S ABILITY TO INTEGRATE BUSINESSES WHICH IT ACQUIRES;

UNFAVORABLE ECONOMIC CONDITIONS;

IMPAIRMENTS IN THE COMPANY'S GOODWILL OR OTHER INTANGIBLE ASSETS;

LOSSES IN THE COMPANY'S INVESTMENT PORTFOLIO;

EXPENSES OF AND FUNDING OBLIGATIONS TO THE COMPANY'S PENSION PLAN; 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, 2008, AS UPDATED HEREIN.

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)

	March 31, 2009	December 31, 2008
Assets		
Cash and cash equivalents	\$ 934,080	\$ 934,945
Accounts and accrued income receivable, net	509,514	558,946
Income tax receivable	49,163	61,678
Investments:		
Deposits with savings and loan associations and banks	206,516	182,117
Debt securities	1,670,593	1,718,320
Equity securities	104,618	110,126
Other long-term investments	383,777	371,157
	2,365,504	2,381,720
Loans receivable, net	154,287	151,692
Property and equipment, net	638,018	665,305
Title plants and other indexes	688,261	685,090
Deferred income taxes	148,160	149,473
Goodwill	2,607,279	2,594,738
Other intangible assets, net	286,670	298,411
Other assets	247,995	248,057
	\$ 8,628,931	\$ 8,730,055
Liabilities and Equity		
Demand deposits	\$ 1,358,196	\$ 1,298,221
Accounts payable and accrued liabilities	873,081	994,093

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Deferred revenue	702,644	728,844
Reserve for known and incurred but not reported claims	1,316,533	1,355,392
Notes and contracts payable	862,796	868,274
Deferrable interest subordinated notes	100,000	100,000
	5,213,250	5,344,824
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 93,190 and 92,963 shares	93,190	92,963
Additional paid-in capital	811,521	801,228
Retained earnings	2,115,544	2,099,654
Accumulated other comprehensive loss	(297,324)	(290,615)
The First American Corporation (FAC) stockholders' equity	2,722,931	2,703,230
Noncontrolling interests	692,750	682,001
Total equity	3,415,681	3,385,231
	\$ 8,628,931	\$ 8,730,055

See notes to condensed consolidated financial statements.

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THE FIRST AMERICAN CORPORATION

AND SUBSIDIARY COMPANIESCondensed Consolidated Statements of Income

(in thousands, except per share amounts)

(unaudited)

	For the Three Months Ended March 31,	
	2009	2008
Revenues		
Operating revenues	\$ 1,319,169	\$ 1,595,269
Investment and other income	57,613	69,732
Net realized investment gains (losses)	1,030	(5,876)
	1,377,812	1,659,125
Expenses		
Salaries and other personnel costs	462,860	577,614
Premiums retained by agents	239,559	364,051
Other operating expenses	427,130	449,640
Provision for policy losses and other claims	89,391	107,099
Depreciation and amortization	52,002	57,523
Premium taxes	7,766	12,016
Interest	16,091	21,608
	1,294,799	1,589,551
Income before income taxes	83,013	69,574
Income taxes provision	28,055	22,117
Net income	54,958	47,457
Less: Net income attributable to noncontrolling interests	18,933	18,139
Net income attributable to FAC	\$ 36,025	\$ 29,318
Net income attributable to FAC stockholders (Note 7):		
Basic	\$ 0.39	\$ 0.32
Diluted	\$ 0.38	\$ 0.32
Cash dividends per share	\$ 0.22	\$ 0.22
Weighted-average number of shares (Note 7):		
Basic	93,022	92,000
Diluted	93,695	92,725

See notes to condensed consolidated financial statements.

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THE FIRST AMERICAN CORPORATION

AND SUBSIDIARY COMPANIESCondensed Consolidated Statements of Comprehensive Income

(in thousands)

(unaudited)

	For the Three Months Ended March 31,	
	2009	2008
Net income	\$ 54,958	\$ 47,457
Other comprehensive income (loss), net of tax		
Unrealized gain (loss) on securities	624	(27,326)
Unrealized loss on securities for which credit-related portion was recognized in net realized investment gains (losses)	(4,720)	
Foreign currency translation adjustments	(4,577)	744
Minimum pension liability adjustment	3,607	2,083
Total other comprehensive (loss), net of tax	(5,066)	(24,499)
Comprehensive income	49,892	22,958
Less: Comprehensive income attributable to noncontrolling interests	20,576	13,069
Comprehensive income attributable to FAC	\$ 29,316	\$ 9,889

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 Three Months Ended March 31,	
	2009	2008
Cash flows from operating activities:		
Net income	\$ 54,958	\$ 47,457
Adjustments to reconcile net income to cash provided by (used for) operating activities-		
Provision for policy losses and other claims	89,391	107,099
Depreciation and amortization	52,002	57,523
Share-based compensation	11,292	7,739
Net realized investment (gains) losses	(1,030)	5,876
Equity in earnings of affiliates	(21,112)	(15,263)
Changes in assets and liabilities excluding effects of company acquisitions and noncash transactions-		
Claims paid, including assets acquired, net of recoveries	(128,250)	(117,589)
Net change in income tax accounts	14,287	(63,467)
Decrease (increase) in accounts and accrued income receivable	49,433	(83,764)
Decrease in accounts payable and accrued liabilities	(109,604)	(80,254)