

FIRST AMERICAN CORP
Form 10-Q/A
August 14, 2003
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FORM 10-Q/A
AMENDMENT NO. 1 TO
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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

For the quarterly period ended June 30, 2003

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 0-3658

THE FIRST AMERICAN CORPORATION

(Exact name of registrant as specified in its charter)

Incorporated in California

95-1068610

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

1 First American Way, Santa Ana, California

92707-5913

(Address of principal executive offices)

(Zip Code)

(714) 800-3000

(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 if the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).

Yes No

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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. \$1 par value - 77,589,939 as of August 11, 2003

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THE FIRST AMERICAN CORPORATION
AND SUBSIDIARY COMPANIES

Condensed Consolidated Balance Sheets
(in thousands, except percentage and share data)

	<u>June 30,</u> <u>2003</u>	<u>December 31,</u> <u>2002</u>
	<u>(unaudited)</u>	
Assets		
Cash and cash equivalents	\$ 1,053,818	\$ 900,863
Accounts and accrued income receivable, net	395,029	299,040
Investments:		
Deposits with savings and loan associations and banks	40,901	38,328
Debt securities	339,883	309,864
Equity securities	42,447	36,931
Other long-term investments	235,715	142,392
	658,946	527,515
Loans receivable, net	107,657	108,162
Property and equipment, at cost:		
Land	43,468	43,185
Buildings	185,017	183,045
Furniture and equipment	281,163	270,004
Capitalized software	315,249	284,537
	824,897	780,771
Less- accumulated depreciation and amortization	(381,971)	(347,695)
	442,926	433,076
Title plants and other indexes	388,619	375,401
Deferred income taxes	18,901	20,951
Goodwill, net	645,849	563,991
Other assets	230,145	169,046
	\$ 3,941,890	\$ 3,398,045
Liabilities and Stockholders Equity		
Demand deposits	\$ 83,162	\$ 84,473
Accounts payable and accrued liabilities	627,806	539,069

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Deferred revenue	405,873	358,747
Reserve for known and incurred but not reported claims	379,207	360,305
Income taxes payable	59,378	1,518
Notes and contracts payable	425,650	425,705
Minority interests in consolidated subsidiaries	221,558	163,639
Commitments and contingencies		
Mandatorily redeemable preferred securities of the Company's subsidiary trust whose sole assets are the Company's \$100,000 8.5% deferrable interest subordinated notes due 2012	100,000	100,000
Stockholders' equity:		
Preferred stock, \$1 par value Authorized - 500,000 shares; outstanding - none		
Common stock, \$1 par value Authorized - 180,000,000 shares		
Outstanding - 77,469,000 and 73,636,000 shares	77,469	73,636
Additional paid-in capital	432,552	359,644
Retained earnings	1,187,524	987,768
Accumulated other comprehensive loss	(58,289)	(56,459)
	1,639,256	1,364,589
	\$ 3,941,890	\$ 3,398,045

See notes to condensed consolidated financial statements.

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THE FIRST AMERICAN CORPORATION
AND SUBSIDIARY COMPANIES

Condensed Consolidated Statements of Income and Comprehensive Income

(in thousands, except per share amounts)

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2003	2002	2003	2002
	(unaudited)		(unaudited)	
Revenues				
Operating revenues	\$ 1,513,554	\$ 1,084,581	\$ 2,818,417	\$ 2,107,921
Investment and other income	27,790	19,576	52,357	38,379
Net realized investment gains (losses)	1,587	(12,627)	14,132	(12,568)
	<u>1,542,931</u>	<u>1,091,530</u>	<u>2,884,906</u>	<u>2,133,732</u>
Expenses				
Salaries and other personnel costs	439,769	363,918	846,986	709,243
Premiums retained by agents	408,784	308,839	774,493	593,133
Other operating expenses	327,804	243,829	621,191	481,187
Provision for policy losses and other claims	79,403	52,697	146,642	99,796
Depreciation and amortization	26,555	25,084	52,570	49,232
Premium taxes	12,010	8,393	22,466	15,592
Interest	8,853	8,716	17,312	16,936
	<u>1,303,178</u>	<u>1,011,476</u>	<u>2,481,660</u>	<u>1,965,119</u>
Income before income taxes and minority interests	239,753	80,054	403,246	168,613
Income taxes	83,100	26,300	139,100	57,300
Income before minority interests	156,653	53,754	264,146	111,313
Minority interests	29,177	13,633	49,090	27,117
Net income	<u>127,476</u>	<u>40,121</u>	<u>215,056</u>	<u>84,196</u>
Other comprehensive income (loss), net of tax				
Unrealized gain (loss) on securities	3,653	(4,475)	3,220	(5,010)
Minimum pension liability adjustment	(1,950)	(100)	(5,050)	(2,375)
	<u>1,703</u>	<u>(4,575)</u>	<u>(1,830)</u>	<u>(7,385)</u>
Comprehensive income	<u>\$ 129,179</u>	<u>\$ 35,546</u>	<u>\$ 213,226</u>	<u>\$ 76,811</u>
Net income per share (Note 2):				
Basic	<u>\$ 1.67</u>	<u>\$ 0.56</u>	<u>\$ 2.86</u>	<u>\$ 1.19</u>
Diluted	<u>\$ 1.47</u>	<u>\$ 0.51</u>	<u>\$ 2.53</u>	<u>\$ 1.07</u>
Cash dividends per share	<u>\$.10</u>	<u>\$.08</u>	<u>\$.20</u>	<u>\$.15</u>

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Weighted average number of shares (Note 2):

Basic	76,420	71,454	75,289	70,725
Diluted	87,915	82,672	86,506	81,829

See notes to condensed consolidated financial statements.

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THE FIRST AMERICAN CORPORATION
AND SUBSIDIARY COMPANIES

Condensed Consolidated Statements of Cash Flows
(in thousands)

	For the Six Months Ended June 30	
	2003	2002
	(unaudited)	
Cash flows from operating activities:		
Net income	\$215,056	\$84,196
Adjustments to reconcile net income to cash provided by operating activities		
Provision for policy losses and other claims	146,642	99,796
Depreciation and amortization	52,570	49,232
Minority interests in net income	49,090	27,117
Net investment (gains) losses	(14,132)	12,568
Other, net	(30,047)	(15,590)
Changes in assets and liabilities excluding effects of company acquisitions and noncash transactions		
Claims paid, net of recoveries	(131,031)	(94,645)
Net change in income tax accounts	56,154	3,881
Increase in accounts and accrued income receivable	(93,124)	(21,194)
Increase in accounts payable and accrued liabilities	85,654	29,001
Increase in deferred revenue	47,011	30,694
Other, net	(21,631)	(9,116)
	362,212	195,940
Cash flows from investing activities:		
Net cash effect of company acquisitions/dispositions	(74,974)	(23,852)
Net increase in deposits with banks	(2,296)	(13,127)
Net decrease (increase) in loans receivable	505	(2,480)
Purchases of debt and equity securities	(128,660)	(154,600)
Proceeds from sales of debt and equity securities	69,711	39,571
Proceeds from maturities of debt securities	30,866	77,658
Net decrease in other investments	2,702	7,188
Capital expenditures	(50,900)	(46,984)
Purchases of capitalized data	(9,771)	(8,280)
Proceeds from sale of property and equipment	649	1,757
	(162,168)	(123,149)
Cash flows from financing activities:		
Net change in demand deposits	(1,311)	(3,580)
Proceeds from issuance of debt	7,748	4,479
Repayment of debt	(21,635)	(12,324)
Proceeds from exercise of stock options	13,526	6,372
Proceeds from the issuance of stock to employee benefit plans	3,159	2,002
Distributions to minority shareholders	(33,614)	(18,389)

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Cash dividends	(14,962)	(11,430)
	<hr/>	<hr/>
Cash used for financing activities	(47,089)	(32,870)
	<hr/>	<hr/>
Net increase in cash and cash equivalents	152,955	39,921
Cash and cash equivalents Beginning of year	900,863	645,240
	<hr/>	<hr/>
End of first half	\$1,053,818	\$685,161
	<hr/>	<hr/>

Supplemental information:

Cash paid during the first half for:		
Interest	\$17,152	\$16,456
Premium taxes	\$27,250	\$15,674
Income taxes	\$86,491	\$52,395
Noncash investing and financing activities:		
Shares issued for employee benefit plans	\$42,376	\$17,491
Liabilities incurred in connection with company acquisitions	\$61,009	\$28,728
Company acquisitions in exchange for common stock	\$17,680	\$26,380

See notes to condensed consolidated financial statements.

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THE FIRST AMERICAN CORPORATION
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Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 1 - Basis of Condensed Consolidated Financial Statements

The condensed consolidated financial information included in this report has been prepared in conformity with the accounting principles and practices reflected in the consolidated financial statements included in the annual report filed with the Securities and Exchange Commission for the preceding calendar year. All adjustments are of a normal recurring nature and are, in the opinion of management, necessary to a fair statement of the consolidated results for the interim periods. Certain 2002 amounts have been reclassified to conform to the 2003 presentation. This report should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

Note 2 - Earnings Per Share

	<u>For the Three Months Ended</u> <u>June 30</u>		<u>For the Six Months Ended</u> <u>June 30</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
<i>(in thousands, except per share amounts)</i>				
Numerator:				
Net Income-numerator for basic net income per share	\$ 127,476	\$ 40,121	\$ 215,056	\$ 84,196
Effect of dilutive securities				
Add: Convertible debt - interest expense (net of tax)	1,711	1,761	3,434	3,534
Net Income numerator for dilutive net income per share	\$ 129,187	\$ 41,882	\$ 218,490	\$ 87,730
Denominator:				
Weighted average shares-denominator For basic net income per share	76,420	71,454	75,289	70,725
Effect of dilutive securities:				
Employee stock options	3,089	2,662	2,792	2,529
Convertible debt	8,406	8,556	8,425	8,575
Denominator for diluted net income per share	87,915	82,672	86,506	81,829
Basic net income per share	\$ 1.67	\$ 0.56	\$ 2.86	\$ 1.19
Diluted net income per share	\$ 1.47	\$ 0.51	\$ 2.53	\$ 1.07
Antidilutive stock options	304	3,504	1,844	3,651

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Effective December 15, 2002, the Company adopted Statement of Financial Accounting Standards No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure, which amends Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS 148). In accounting for its plans, the Company, as allowable under the provisions of SFAS 148, applies Accounting Principles Board Opinions No. 25, Accounting for Stock Issued to Employees. As a result of this election, the Company does not recognize compensation expense for its stock option plans. Had the Company determined compensation cost based on the fair value for its stock options at grant date, net income and earnings per share would have been reduced to the pro forma amounts as follows:

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2003	2002	2003	2002
<i>(in thousands, except per share amounts)</i>				
Net Income:				
As reported	\$ 127,476	\$ 40,121	\$ 215,056	\$ 84,196
Deduct: Total stock-based employee compensation expense determined under fair value based methods for all awards, net of tax	(1,839)	(539)	(2,956)	(1,772)
Pro forma	\$ 125,637	\$ 39,582	\$ 212,100	\$ 82,424
Net income per share:				
As reported:				
Basic	\$ 1.67	\$ 0.56	\$ 2.86	\$ 1.19
Diluted	\$ 1.47	\$ 0.51	\$ 2.53	\$ 1.07
Pro forma:				
Basic	\$ 1.64	\$ 0.55	\$ 2.82	\$ 1.16
Diluted	\$ 1.45	\$ 0.50	\$ 2.49	\$ 1.05

Note 4 Business Combinations

On June 5, 2003, the Company formed First Advantage Corporation, which was created through the merger of First American Corporation's screening information businesses with the operations of US SEARCH.com Inc. Under the terms of the agreement, the former stockholders of US SEARCH received 0.04 of a Class A common share of First Advantage for each share of US SEARCH owned prior to the merger. The former stockholders of US SEARCH hold approximately 20 percent of the total shares of First Advantage. The First American Corporation received Class B common stock, entitling 10 votes for each share, representing approximately 80 percent of the total shares of First Advantage. As a result of this acquisition, the Company recorded approximately \$3.0 million of intangible assets with definite lives and \$53.8 million of goodwill. The new public company trades Class A common stock as FADV on the NASDAQ National Market System.

In addition to the acquisition discussed above, the Company acquired 17 companies during the six months ended June 30, 2003. These acquisitions were not material individually or in the aggregate. Of these acquisitions, 15 have been included in the Company's title insurance segment and two are in the Company's property information segment. The aggregate purchase price was \$78.5 million in cash, \$16.2 million in notes payable and .7 million shares, valued at \$17.7 million, of the Company's common stock. The purchase price for each was allocated to the assets acquired and liabilities assumed using a variety of valuation techniques including discounted cash flow analysis. As a result of these acquisitions, the Company recorded approximately \$10.9 million of intangible assets with definite lives and \$38.9 million of goodwill.

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In order to expand the disclosure of the Company's business segments and to report financial results in a manner consistent with the reporting responsibilities of the Company's management, the Company established seven reporting segments that fall within two primary business groups, Financial Services and Information Technology. The Financial Services Group includes Title Insurance and Services, Specialty Insurance and Trust and Other Services. The Information Technology Group includes Mortgage Information, Property Information, Credit Information and Screening Information.

For the three months ended June 30, 2003:

<i>(in thousands)</i>	Revenues	Income (loss) before income taxes and minority interests	Depreciation and amortization	Capital expenditures
Financial Services				
Title Insurance and Services	\$ 1,100,929	\$ 140,035	\$ 9,271	\$ 12,908
Specialty Insurance	54,062	8,241	491	596
Trust and Other Services	10,257	3,002	214	16
	<u>1,165,248</u>	<u>151,278</u>	<u>9,976</u>	<u>13,520</u>
Information Technology				
Mortgage Information	160,937	62,653	3,727	5,371
Property Information	105,156	32,390	5,497	1,875
Credit Information	71,781	17,971	2,865	3,257
Screening Information	37,374	3,218	1,785	1,253
	<u>375,248</u>	<u>116,232</u>	<u>13,874</u>	<u>11,756</u>