FIRST AMERICAN CORP
Form 10-Q
May 03, 2010
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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, 2010

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	**95-1068610**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**
1 First American Way, Santa Ana, California	**92707-5913**
(Address of principal executive offices)	**(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 x 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

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 26, 2010, there were 103,901,992 Common shares outstanding.

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THE FIRST AMERICAN CORPORATION

AND SUBSIDIARY COMPANIES

INFORMATION INCLUDED IN REPORT

Items 3 and 4 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 CONSUMMATION OF THE PROPOSED SPIN-OFF TRANSACTION ANNOUNCED JANUARY 15, 2008, THE FORM AND TIMING THEREOF AND THE REMAINING STEPS TO BE TAKEN IN CONNECTION THEREWITH;

THE CLOSING OF THE FINCO CREDIT AGREEMENT;

THE EXPIRATION OF THE COMPANY S DEBT TENDER OFFERS;

CHANGES IN UNRECOGNIZED TAX POSITIONS AND THE EFFECT THEREOF ON THE COMPANY S EFFECTIVE TAX RATE;

THE CONSIDERATION TO BE PAID FOR THE REMAINING NONCONTROLLING INTERESTS IN FIRST AMERICAN CORELOGIC HOLDINGS, INC.;

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

THE EXPECTED CLOSING AND PURCHASE PRICE TO ACQUIRE EXPERIAN S INTEREST IN FARES;

THE EFFECT OF PENDING AND RECENT ACCOUNTING PRONOUNCEMENTS ON THE COMPANY S FINANCIAL STATEMENTS;

THE EFFECT OF THE ISSUES FACING THE COMPANY S CUSTOMERS;

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THE IMPACT OF THE UNCERTAINTY IN THE OVERALL ECONOMY, INCLUDING UNEMPLOYMENT AND THE REAL ESTATE AND MORTGAGE MARKETS, ON THE COMPANY S LINES OF BUSINESS;

THE COMPANY S COST CONTROL INITIATIVES, AGENCY RELATIONSHIPS, OFFSHORE LEVERAGE, SALES EFFORTS AND DEVELOPMENT OF NEW PRODUCTS AND SERVICE OFFERINGS;

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

THE BENEFITS TO BE PROVIDED TO THE COMPANY S EXECUTIVE CHAIRMAN FOLLOWING THE CONSUMMATION OF THE SPIN-OFF

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;

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;

INCREASES IN THE SIZE OF THE COMPANY S CUSTOMERS;

UNFAVORABLE ECONOMIC CONDITIONS;

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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;

WEAKNESS IN THE COMMERCIAL REAL ESTATE MARKET AND INCREASES IN THE AMOUNT OR SEVERITY OF COMMERCIAL REAL ESTATE TRANSACTION CLAIMS;

REGULATION OF TITLE INSURANCE RATES; 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, 2009, AS UPDATED IN PART II, ITEM 1A OF THIS QUARTERLY REPORT ON FORM 10-Q.

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 COMPANIES

Condensed Consolidated Balance Sheets

(in thousands, except par value)

(unaudited)

	March 31, 2010	December 31, 2009
Assets		
Cash and cash equivalents	$ 758,816	$ 982,448
Accounts and accrued income receivable, net	478,221	491,539
Income taxes receivable	40,051	97,989
Investments:		
Deposits with savings and loan associations and banks	95,567	124,553
Debt securities	2,025,295	1,868,413
Equity securities	89,659	99,167
Other long-term investments	378,143	374,862
	2,588,664	2,466,995
Loans receivable, net	163,329	161,897
Property and equipment, net	592,440	591,782
Title plants and other indexes	693,230	692,359
Deferred income taxes	13,255	13,255
Goodwill	2,621,494	2,617,577
Other intangible assets, net	246,584	257,526
Other assets	346,169	349,730
	$ 8,542,253	$ 8,723,097
Liabilities and Equity		
Demand deposits	$ 1,182,759	$ 1,153,574
Accounts payable and accrued liabilities	994,734	1,085,031
Deferred revenue	687,989	710,217
Reserve for known and incurred but not reported claims	1,227,473	1,255,088
Notes and contracts payable	775,660	791,083
Deferrable interest subordinated notes	88,059	100,000
Mandatorily redeemable noncontrolling interests	72,000	
Total liabilities	5,028,674	5,094,993
Commitments and contingencies		
Redeemable noncontrolling interests	313,847	458,847

The First American Corporation (FAC) stockholders equity:		
Preferred stock, $1 par value Authorized 500 shares; Outstanding None		
Common stock, $1 par value:		
Authorized 180,000 shares		
Outstanding 103,846 and 103,283 shares	103,846	103,283
Additional paid-in capital	1,017,916	1,001,305
Retained earnings	2,223,792	2,217,505
Accumulated other comprehensive loss	(158,922)	(167,798)
Total FAC stockholders equity	3,186,632	3,154,295
Noncontrolling interests	13,100	14,962
Total equity	3,199,732	3,169,257
	$ 8,542,253	$ 8,723,097

See notes to condensed consolidated financial statements.

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THE FIRST AMERICAN CORPORATION

AND SUBSIDIARY COMPANIES

Condensed Consolidated Statements of Income

(in thousands, except per share amounts)

(unaudited)

	For the Three Months Ended March 31, 2010	2009
Revenues		
Operating revenues	$ 1,312,622	$ 1,319,169
Investment and other income	45,279	57,613
Net realized investment gains	4,136	3,452
Net other-than-temporary impairment (OTTI) losses recognized in earnings:		
Total OTTI losses on equity securities	(19)	
Total OTTI losses on debt securities	(736)	(43,183)
Portion of OTTI losses on debt securities recognized in other comprehensive loss	(971)	40,761
	(1,726)	(2,422)
	1,360,311	1,377,812
Expenses		
Salaries and other personnel costs	448,807	462,860
Premiums retained by agents	302,508	239,559
Other operating expenses	403,824	427,130
Provision for title losses and other claims	75,892	89,391
Depreciation and amortization	49,823	52,002
Premium taxes	9,264	7,766
Interest	10,144	16,091
	1,300,262	1,294,799
Income before income taxes	60,049	83,013
Income taxes	21,410	28,055
Net income	38,639	54,958
Less: Net income attributable to noncontrolling interests	9,183	18,933
Net income attributable to FAC	$ 29,456	$ 36,025
Net income per share attributable to FAC stockholders (Note 10):		
Basic	$ 0.28	$ 0.39
Diluted	$ 0.28	$ 0.38
Cash dividends per share	$ 0.22	$ 0.22
Weighted-average common shares outstanding (Note 10):		

Basic	103,474	93,022
Diluted	104,752	93,695

See notes to condensed consolidated financial statements.

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THE FIRST AMERICAN CORPORATION

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Condensed Consolidated Statements of Comprehensive Income

(in thousands)

(unaudited)

	For the Three Months Ended March 31, 2010	2009
Net income	$ 38,639	$ 54,958
Other comprehensive income (loss), net of tax:		
Unrealized gain on securities	1,475	624
Unrealized gain (loss) on securities for which credit-related portion was recognized in earnings	1,990	(4,720)
Foreign currency translation adjustment	3,978	(4,577)
Pension benefit adjustment	3,514	3,607
Total other comprehensive income (loss), net of tax	10,957	(5,066)
Comprehensive income	49,596	49,892
Less: Comprehensive income attributable to noncontrolling interests	11,264	20,576
Comprehensive income attributable to FAC	$ 38,332	$ 29,316

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)

(unaudited)

	For the Three Months Ended March 31, 2010	2009
Cash flows from operating activities:		
Net income	$ 38,639	$ 54,958
Adjustments to reconcile net income to cash provided by (used for) operating activities:		
Provision for title losses and other claims	75,892	89,391
Depreciation and amortization	49,823	52,002
Share-based compensation expense	9,891	11,292
Net realized investment gains	(4,136)	(3,452)
Net OTTI losses recognized in earnings	1,726	2,422
Equity in earnings of affiliates	(13,151)	(21,112)
Changes in assets and liabilities excluding effects of company acquisitions and noncash transactions:		
Claims paid, including assets acquired, net of recoveries	(107,382)	(128,250)
Net change in income tax accounts	53,893	14,287
Decrease in accounts and accrued income receivable	13,286	49,433
Decrease in accounts payable and accrued liabilities	(84,702)	(109,604)
Decrease in deferred revenue	(22,223)	(26,200)
Other, net	2,786	(3,454)
Cash provided by (used for) operating activities	14,342	(18,287)
Cash flows from investing activities:		
Net cash effect of company acquisitions	(3,922)	(20,485)
Purchase of subsidiary shares from redeemable noncontrolling interests	(72,000)	
Purchase of subsidiary shares from / other decreases in noncontrolling interests	(3,550)	(7,997)
Sale of subsidiary shares to / other increases in noncontrolling interests	51	778
Increase in deposits with banks	(3,001,385)	(10,603,789)
Proceeds from deposits with banks	3,029,895	10,579,390
Net increase in loans receivable	(1,432)	(2,595)
Purchases of debt and equity securities	(478,850)	(91,620)
Proceeds from sales of debt and equity securities	209,488	75,610
Proceeds from maturities of debt securities	133,740	60,299
Dividends received from unconsolidated subsidiaries	9,265	13,938
Net decrease (increase) in other long-term investments	1,625	(4,306)
Capital expenditures	(38,422)	(18,770)
Purchases of capitalized data	(5,949)	(6,094)
Proceeds from sale of property and equipment	1,364	8,611
Cash used for investing activities	(220,082)	(17,030)
Cash flows from financing activities:		
Net change in demand deposits	29,185	59,975
Proceeds from issuance of debt	3,596	45,006

Repayment of debt	(31,438)	(50,160)
Proceeds from exercise of stock options	5,679	1,318
Proceeds from issuance of stock to employee benefit plans	1,761	1,289
Contributions from noncontrolling interests		891
Distributions to noncontrolling interests	(355)	(3,499)
Distributions to redeemable noncontrolling interests	(5,118)	
Excess tax benefits from share-based compensation	1,520	84
Cash dividends	(22,722)	(20,452)
Cash (used for) provided by financing activities	(17,892)	34,452
Net decrease in cash and cash equivalents	(223,632)	(865)
Cash and cash equivalents Beginning of period	982,448	934,945
Cash and cash equivalents End of period	$ 758,816	$ 934,080
Supplemental information:		
Cash paid (received) during the quarter for:		
Interest	$ 7,182	$ 18,337
Premium taxes	$ 10,721	$ 10,454
Income taxes	$ (24,549)	$ 12,162

See notes to condensed consolidated financial statements.

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THE FIRST AMERICAN CORPORATION

AND SUBSIDIARY COMPANIES

Condensed Consolidated Statement of Equity

(in thousands)

(unaudited)

	First American Corporation Stockholders						
	Shares	Common Stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Non-controlling interests (1)	Total
Balance at December 31, 2009	103,283	$ 103,283	$ 1,001,305	$ 2,217,505	$ (167,798)	$ 14,962	$ 3,169,257
Net income for three months ended March 31, 2010				29,456		(89)	29,367
Dividends on common shares				(22,846)			(22,846)
Shares issued in connection with restricted stock unit, option and benefit plans	563	563	3,414				3,977
Share-based compensation expense			9,787				9,787
Restricted stock unit dividend equivalents			323	(323)			
Purchase of subsidiary shares from / other decreases in noncontrolling interests			(2,067)			(3,550)	(5,617)
Sale of subsidiary shares to / other increases in noncontrolling interests						51	51
Distributions to noncontrolling interests						(355)	(355)
Adjust redeemable noncontrolling interests to redemption value			5,154				5,154
Other comprehensive income					8,876	2,081	10,957
Balance at March 31, 2010	103,846	$ 103,846	$ 1,017,916	$ 2,223,792	$ (158,922)	$ 13,100	$ 3,199,732

(1) Excludes amounts related to redeemable noncontrolling interests recorded in the mezzanine section of the Company s condensed consolidated balance sheet between liabilities and stockholders equity. See Note 14 Redeemable Noncontrolling Interests and Stockholders Equity to the condensed consolidated financial statements for a summary of the changes in redeemable noncontrolling interests.

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 accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Securities and Exchange Commission (SEC) Form 10-Q and Article 10 of SEC Regulation S-X. The principles for condensed interim financial information do not require the inclusion of all the information and footnotes required by generally accepted accounting principles for complete financial statements. Therefore, these financial statements should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2009. The condensed consolidated financial statements included herein are unaudited; however, in the opinion of management, they contain all normal recurring adjustments necessary for a fair statement of the condensed consolidated results for the interim periods. Certain 2009 amounts have been reclassified to conform to the 2010 presentation.

Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued guidelines relating to transfers of financial assets which amended existing guidance by removing the concept of a qualifying special purpose entity and establishing a new participating interest definition that must be met for transfers of portions of financial assets to be eligible for sale accounting, clarifies and amends the derecognition criteria for a transfer to be accounted for as a sale, and changes the amount that can be recognized as a gain or loss on a transfer accounted for as a sale when beneficial interests are received by the transferor. Enhanced disclosures are also required to provide information about transfers of financial assets and a transferor s continuing involvement with transferred financial assets. This guidance must be applied as of the beginning of an entity s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is prohibited. The adoption of this standard had no impact on the Company s condensed consolidated financial statements.

In June 2009, the FASB issued guidance amending existing guidance surrounding the consolidation of variable interest entities (VIE) to require an enterprise to qualitatively assess the determination of the primary beneficiary of a VIE based on whether the entity (1) has the power to direct the activities of a VIE that most significantly impact the entity s economic performance and (2) has the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. This guidance also requires an ongoing reconsideration of the primary beneficiary, and amends the events that trigger a reassessment of whether an entity is a VIE. Enhanced disclosures are also required to provide information about an enterprise s involvement in a VIE. This statement is effective as of the beginning of each reporting entity s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is prohibited. The adoption of this standard had no impact on the Company s condensed consolidated financial statements.

In January 2010, the FASB issued updated guidance related to fair value measurements and disclosures, which requires a reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and to describe the reasons for the transfers. The updated guidance also requires that an entity should provide fair value measurement disclosures for each class of assets and liabilities and disclosures about the valuation techniques and inputs used to measure fair value for both recurring and non-recurring fair value measurements for Level 2 and Level 3 fair value measurements. This updated guidance became effective for interim or annual financial reporting periods beginning after December 15, 2009. Except for the disclosure requirements, the adoption of this statement did not have an impact on the Company s condensed consolidated financial statements.

In June 2009, the FASB issued authoritative guidance surrounding the Hierarchy of Generally Accepted Accounting Principles. This guidance established the FASB Accounting Standards Codification (the Codification or ASC) as the official single source of authoritative U.S. generally accepted accounting principles (GAAP). All guidance contained in the Codification carries an equal level of authority. All existing accounting standards are superseded. All other accounting guidance not included in the Codification will be considered non-authoritative. The Codification also includes all relevant SEC guidance organized using the same topical structure in separate sections within the Codification. Following the Codification, the FASB will not issue new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standards Updates which will serve to update the Codification, provide background information about the guidance and provide the basis for conclusions on the changes to the Codification.

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THE FIRST AMERICAN CORPORATION

AND SUBSIDIARY COMPANIES

Notes to Condensed Consolidated Financial Statements (continued)

(Unaudited)

The Codification is not intended to change GAAP, but it will change the way GAAP is organized and presented. The Codification is effective for financial statements issued for interim and annual periods ending after September 15, 2009. Except for codifying existing GAAP, the adoption of this statement did not have an impact on the determination or reporting of the Company s condensed consolidated financial statements.

In April 2009, the FASB issued guidance relating to fair value disclosures in public entity financial statements for financial instruments. This guidance increases the frequency of those disclosures, requiring public entities to provide the disclosures on a quarterly basis, rather than annually. The guidance is effective for interim and annual periods ending after June 15, 2009. The Company adopted this guidance in the second quarter of 2009. Except for the disclosure requirements, the adoption of this guidance did not have an impact on the Company s condensed consolidated financial statements.

In May 2009, the FASB issued authoritative guidance relating to the disclosure of subsequent events. This guidance is modeled after the same principles as the subsequent event guidance in auditing literature with some terminology changes and additional disclosures. This guidance is effective for interim and annual periods ending after June 15, 2009, and is required to be applied prospectively. The Company adopted the guidance in the second quarter of 2009. Except for the disclosure requirements, the adoption of the guidance had no impact on the Company s condensed consolidated financial statements.

In February 2010, the FASB issued updated guidance which amended the subsequent events disclosure requirements to eliminate the requirement for SEC filers to disclose the date through which it has evaluated subsequent events, clarify the period through which conduit bond obligors must evaluate subsequent events and refine the scope of the disclosure requirements for reissued financial statements. The updated guidance was effective upon issuance. Except for the disclosure requirements, the adoption of the guidance had no impact on the Company s condensed consolidated financial statements.

In December 2008, the FASB issued guidance that expands the disclosures required in an employer s financial statements about pension and other postretirement benefit plan assets. The new disclosures include more details about the categories of plan assets and information regarding fair value measurements. This guidance is effective for fiscal years ending after December 15, 2009. The Company adopted the guidance in the fourth quarter of 2009 and except for the disclosure requirements, the adoption had no impact on its condensed consolidated financial statements.

Equity Method Investments

One of the Company s equity method investments is a joint venture that provides products used in connection with loan originations, in which a subsidiary of the Company owns a 50.1% interest. Based on the terms and conditions of the joint venture agreement, the Company does not have control of or a majority voting interest in the joint venture. Accordingly, this investment is accounted for under the equity method. Summarized financial information for this investment (assuming a 100% ownership interest) is as follows:

	For the Three Months Ended March 31,	
(in thousands)	**2010**	**2009**
Statement of operations		
Net revenue	$ 85,032	$ 122,757
Income before income taxes	$ 20,841	$ 26,896
Net income	$ 20,720	$ 26,518

THE FIRST AMERICAN CORPORATION

AND SUBSIDIARY COMPANIES

Notes to Condensed Consolidated Financial Statements (continued)

(Unaudited)

Note 2 Spin-off Developments

On January 15, 2008, the Company announced that its Board of Directors had approved a plan to separate the Company into two independent publicly traded companies (the separation), one consisting of the Company s financial services businesses, First American Financial Corporation (FinCo), a wholly-owned subsidiary of the Company, and one for its information solutions businesses, InfoCo. The Company expects to accomplish this by way of a dividend distribution of the common stock of FinCo to the Company s shareholders (the Distribution). Immediately following the Distribution, the Company s shareholders will own 100 percent of the outstanding common stock of FinCo. Prior to the Distribution, certain internal transactions will occur so that FinCo directly or indirectly owns all of the Company s financial services businesses. The remaining entity, InfoCo, will own all of the Company s remaining information solutions businesses. FinCo will adopt the FAF ticker symbol and its shares of common stock will be traded on the New York Stock Exchange under that symbol. InfoCo will be known as CoreLogic, Inc. and its shares of common stock will be traded on the New York Stock Exchange under the ticker symbol CLGX.

The Company continues to proceed with preparations for the separation, and currently expects the separation to occur during the first half of 2010, with a target date of June 1, 2010. FinCo filed a Form 10 Registration Statement with the Securities and Exchange Commission on December 14, 2009, Amendment No. 1 thereto on February 12, 2010, Amendment No. 2 thereto on March 22, 2010, and Amendment No. 3 thereto on April 30, 2010, in preparation for the separation. The transaction remains subject to customary conditions, including final approval by the Board of Directors, effectiveness of the Form 10 Registration Statement, receipt of a tax ruling from the Internal Revenue Service and the approval of applicable regulatory authorities, many of which have already been received. In April 2010, the Company and FinCo established the post separation credit facilities for both InfoCo and FinCo. See Note 8 Notes and Contracts Payable to the condensed consolidated financial statements for further discussion regarding the post separation credit facilities.

Note 3 Escrow Deposits, Like-kind Exchange Deposits and Trust Assets

The Company administers escrow deposits and trust assets as a service to its customers. Escrow deposits totaled $4.90 billion and $2.86 billion at March 31, 2010 and December 31, 2009, respectively, of which $0.9 billion and $0.9 billion, respectively, were held at the Company s federal savings bank subsidiary, First American Trust, FSB. The escrow deposits held at First American Trust, FSB, are included in the accompanying condensed consolidated balance sheets, with $867.5 million and $794.3 million included in debt and equity securities at March 31, 2010 and December 31, 2009, respectively, and $18.4 million and $70.6 million included in cash and cash equivalents at March 31, 2010 and December 31, 2009, respectively, with offsetting liabilities included in demand deposits. The remaining escrow deposits were held at third-party financial institutions.

Trust assets totaled $2.94 billion and $2.93 billion at March 31, 2010 and December 31, 2009, respectively, and were held at First American Trust, FSB. Escrow deposits held at third-party financial institutions and trust assets are not considered assets of the Company and, therefore, are not included in the accompanying condensed consolidated balance sheets. However, the Company could be held contingently liable for the disposition of these assets.

In conducting its operations, the Company often holds customers assets in escrow, pending completion of real estate transactions. As a result of holding these customers assets in escrow, the Company has ongoing programs for realizing economic benefits, including investment programs, borrowing agreements, and vendor services arrangements with various financial institutions. The effects of these programs are included in the condensed consolidated financial statements as income or a reduction in expense, as appropriate, based on the nature of the arrangement and benefit earned.

Like-kind exchange funds held by the Company totaled $314.0 million and $385.0 million at March 31, 2010 and December 31, 2009, respectively, of which $202.4 million and $186.0 million at March 31, 2010 and December 31, 2009, respectively, were held at the Company s subsidiary, First Security Business Bank (FSBB). The like-kind exchange deposits held at FSBB are included in the accompanying condensed consolidated balance sheets, in cash and cash equivalents with offsetting liabilities included in demand deposits. The remaining exchange deposits were held at third-party financial institutions and, due to the structure utilized to facilitate these transactions, the proceeds and property are not considered assets of the Company under GAAP and, therefore, are not included in the accompanying condensed consolidated balance sheets. All such amounts are placed in bank deposits with FDIC insured institutions. The Company could be held contingently liable to the customer for the transfers of property, disbursements of proceeds and the return on the proceeds.

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THE FIRST AMERICAN CORPORATION

AND SUBSIDIARY COMPANIES

Notes to Condensed Consolidated Financial Statements (continued)

(Unaudited)

Note 4 Debt and Equity Securities

The amortized cost and estimated fair value of investments in debt securities, all of which are classified as available-for-sale, are as follows:

(in thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value	Other-than-temporary impairments in AOCI
March 31, 2010					
U.S. Treasury bonds	$ 77,148	$ 1,983	$ (51)	$ 79,080	$
Municipal bonds	164,327	2,156	(1,038)	165,445	
Foreign bonds	154,876	1,605	(268)	156,213	
Governmental agency bonds	419,393	2,255	(912)	420,736	
Governmental agency mortgage-backed and asset-backed securities	1,005,295	12,207	(3,278)	1,014,224	
Non-agency mortgage-backed and asset-backed securities (1)	91,325	2,194	(33,938)	59,581	29,923
Corporate debt securities	128,819	1,815	(618)	130,016	

