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FIRST AMERICAN CORP
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Set forth below is a transcription of an investor conference call held on December 16, 2002.

Operator

Welcome to The First American Corporation and US Search conference call. On the call this morning, are:

- Park Kennedy, president of The First American Corporation;
- Tom Klemens, CFO of The First American Corporation;
- John Long, president of The First American Screening Information group;
- Brent Cohen, president and CEO of US Search;
- Jo Bandy, Vice President of Corporate Communications for The First American Corporation; and
- John Lamson, CFO of First American Real Estate Information Services

All lines will be in a listen only mode until the formal question and answer session at that time instructions will be given on how to ask a question.

This conf is being recorded at the request of The First American Corporation and if you have any objections you may disconnect at this time.

I'd like to remind participants that this call will be accompanied by a web-based presentation that can be accessed at the investor relations section of First American's website at www.firstam.com/investor and US Search's website at www.ussearch.com.

Now, I'll turn the call over to Mrs. Bandy. Ma'am, you may begin

Jo Bandy VP, Corporate Communications, First American

Good morning everyone, before we get started, I'd like to remind our listeners that certain statements made in this presentation are forward-looking. Such statements include those relating to the expected closing date of the transaction, cost and revenue synergies, First Advantage Corporation's revenues for 2002 and 2003, its ability to leverage its technology, its growth rate, its leadership in its industry, its management team, its margin improvement, the services it will be provide, its geographic reach, its financial strength, its operating efficiencies, its market position and market position growth, its acquisition strategy, its expected valuation, its access to capital, the multiple on First Advantage Corporation stock

and the accretive nature of the transaction. Risks and uncertainties exist which 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; 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 the Annual Reports on Form 10-K for the year ended Dec. 31, 2001 for The First American Corporation and US SEARCH.com Inc., as filed with the Securities and Exchange Commission. The forward-looking statements speak only as of the date they are made. None of The First American Corporation, First Advantage Corporation and US SEARCH.com Inc. undertake to update forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements are made.

With that, it is my pleasure to turn the call over to Park Kennedy, president of The First American Corporation. Park?

Park Kennedy President, First American

Thanks Jo. Good morning and thank you for joining us today to discuss the merger of The First American Corporation's Screening Information segment with US Search and the creation of a new company First Advantage Corporation. The Company, which will apply for listing on the Nasdaq National Market, will be 80% owned by The First American Corporation and 20% owned by the shareholders of US Search. The merger is scheduled to close during the second quarter of 2003.

First Advantage is a critical step in First American's growth strategy to maximize profitability for shareholders and to emerge as a leader in the screening industry. The merger brings many benefits to First American and US Search shareholders, including:

significant potential cost and revenue synergies, and

the opportunity for First American and US Search to use the stock of an independent public company as a vehicle to fund continued growth of the screening businesses.

First American is contributing business for which it invested \$187 million over the last 4 years. The Merger is expected to be nominally accretive to First American in 2003 and approximately \$0.02 accretive in 2004.

First Advantage stock should receive the higher valuation afforded to companies in the screening industry, and we believe that this presents a great opportunity to build First Advantage into a first-class industry leader, while increasing the value of First American's investment.

And, we believe that First Advantage will be well-positioned to be an industry leader. The merger combines top-tier assets, excellent management teams, innovative technology and leading products.

We look forward to the benefits provided by our relationship with First Advantage and to the future of growth and profitability for First American, US Search and future First Advantage shareholders.

Now, let me turn the call over to John Long, president of First American's Screening Services Division to discuss the merger in more detail.

John Long, President First American's Screening Information Group

Thanks Park.

Good morning everyone and thanks for joining us today to discuss the merger of the Screening Information businesses of The First American Corporation, and US Search.

The merger combines our screening services business, which includes employee background screening services, tenant screening, alcohol and drug testing and motor vehicle reports, with US Search's location, background screening services to create a new company called First Advantage Corporation.

This is an extremely exciting transaction and one which we believe is very positive for the employees, customers, vendors and shareholders of both companies. It will result in a new company with capabilities that have the potential to transform our industry. First Advantage will have the scale, scope of services, geographic reach and financial strength to not only be a leader in screening and verification management services, but also to aggressively pursue opportunities for growth in the expanding fields of screening and risk management services.

First Advantage will immediately become a leader of comprehensive screening and verification management services for both businesses and consumers. We will be a top tier player in all of our primary market segments and we will have the critical mass to grow and compete effectively in the rapidly consolidating screening industry and the expanding verification industry.

The merger brings together US Search's innovative and proprietary DARWIN technology and First American's leading business information products. DARWIN's leading work flow and sourcing technology reduces the cost of operations and improves the quality of information. By applying DARWIN across

all business lines, the combined company will be able to significantly enhance operating efficiencies and grow margins.

All of which is expected to result in a strong financial performance, both immediately and in the future. The combined company is expected to have revenues of approximately \$160 million in 2002, and is expected to be profitable on a net income basis upon inception. First Advantage is expecting significant revenue and cost synergies and is targeting long-term operating margins of over 30%. The company will have a strong balance sheet, with in excess of \$10 million in cash and no long-term debt.

In a moment I'm going to describe the business strategy behind this combination. But first I'd like to say a few words about the genesis of this deal.

For those of you who are new to The First American Corporation, we are a company that has been around for over a century, tracing our history back to 1889. We're a member of the Fortune 500, with more than \$3.75 billion in revenues last year. We have over 1,300 offices and 22,000 employees around the world. In many of our products and services, First American is either number one or number two by market share, and achieving market leadership is a fundamental tenet of our corporate strategy.

Over the past several years, First American has expanded the scope of our operations to provide non-cyclical, high margin services to a customer base outside our traditional real estate business. We built our screening services business through a series of strategic acquisitions of companies that provided employee background screening, resident screening, motor vehicle records and substance abuse management and testing. We believed that the screening industry was complementary to our core competencies in providing business information.

We also saw it as an industry that was undergoing rapid consolidation, driven by customer demand for a more comprehensive, integrated solution. As a consequence, we believed we had a limited window of opportunity to build a high growth, high margin business with very attractive returns on invested capital.

It turned out that there was another company that had a similar strategy, but a very different background and set of competencies. We first came across US Search because we were looking at potential acquisitions. As the conversation developed we saw the potential to combine our two businesses in a way that would greatly advance our competitive position, allow us to better serve our customers and create value for the shareholders of both companies.

So what are the business benefits behind this merger?

To begin with, our businesses represent an excellent strategic fit, both in the products we offer and the customers we serve.

The new company will operate in five primary market segments and will be able to leverage the DARWIN technology platform.

Employee Background Screening will be the first one. Through *Hire Check* and *PRSI* we will provide comprehensive background screening to employers, including identity verification, criminal record checks, employment and education verifications, professional reference checks and credit reports.

The second one is **People Location** services. *US Search.com* is the leading provider of online search services to consumers, including individual location, childcare and contractor screening.

The third product will be **Substance Abuse Management and Testing**. Through *Substance Abuse Management, Inc. (SAMI)* and *Employee Health Programs (EHP)* we are a third-party administrator of alcohol and drug

testing. We also provide Employee Assistance Programs, and other services that help employers and employees.

Our fourth business line will be **Resident Screening**. Through *First American Registry* and *Safe Rent* we have built the leading multifamily resident screening service, providing landlords with information regarding a housing applicant's rental payment history, occupancy responsibilities, eviction actions, credit information and similar background data.

And last, **Motor Vehicle Reports**. Our *American Driving Records, Inc. (ADR)* provides Motor Vehicle Reports (MVRs) to insurance agents, background screening companies and transportation carriers, with electronic, Web-based connections to DMV records in 47 states.

Each of these businesses will leverage a common technology platform and shared business processes so as to develop the scale, process excellence and technological superiority required for market leadership.

First Advantage will also have access to US Search's blue-chip customer base of over 200 clients in its key verticals of telecommunications, financial services, insurance and healthcare for cross-selling and up-selling opportunities and to deploy its fully integrated, suite of search and verification services.

First Advantage will be a top tier player in each of its primary market segments. We estimate we will be #3 by market share in the background screening market, #2 in the drug screening market, #1 in the markets for individual location and tenant screening, and one of the top four players in motor vehicle records industry. As I mentioned earlier, being a market share leader is central to First American's business strategy and the new company will have the characteristics that are required for an industry leading cost structure, brand recognition and marketing reach that comes with that position.

We believe that First Advantage will be well positioned to compete against its peers in verification and screening services. And, recent deal multiples make the combination of US Search and First American's Screening Information businesses very attractive and our public currency should enable us to take advantage of the consolidating screening services industry.

Let me turn the call over to Brent Cohen, president and CEO of US Search to continue to discuss the synergies of the two companies.

Brent Cohen, president and CEO of US Search

Thank you, John.

Now that you are beginning to have a better understanding of why we are all so excited about the potential of this combination and the opportunity it presents to create an industry leader with significant scale and competitive differentiation, let me walk you through the transaction in a bit more detail and talk about the benefits for our shareholders.

The merger will bring together two companies with very **complementary core competencies**.

US Search brings a proprietary, **scalable technology platform** that makes it possible to access and intelligently assimilate information from a myriad of available databases on a fully automated basis. DARWIN's industry leading workflow and sourcing technology reduces the cost and improves the quality of both information and analytics. By implementing this scalable platform across all lines of our business, we expect to significantly improve its operating efficiency and margins.

US Search also brings a **consumer Web portal** that can serve as a channel to introduce new consumer information products, including credit reports, property information reports, homeowner's insurance and home warranties.

And US Search provides a **public vehicle** that can be used to fund continued growth using equity that is valued according the growth prospects of our screening businesses.

First American brings with it the **experience and unique information assets** developed as one of the largest players in the business information market. We provide the **breadth of services** required to have a truly comprehensive solution to the needs of both enterprises and consumers. And we bring the **operating scale** required to successfully consolidate the screening industry.

The combination of the two companies will accelerate our shared growth strategy in a manner that neither could achieve on its own. These synergistic benefits, include more rapid market penetration, a scalable technology platform and significant revenue synergies.

So what are the benefits for US Search shareholders? As Park mentioned, the merger significantly advances First American's growth strategy, but it also significantly advances US Search's growth strategy and will support development of a strong competitor in the rapidly consolidating search industry that will benefit both US Search and First American shareholders.

And as for US Search shareholders, they will get a partner who is a leader in the business information sector and be able to significantly accelerate their growth strategy.

Acceleration in growing market

The merger creates a company with the **critical mass** to grow and compete effectively. It will be able to secure economies of scale in data acquisition and will be favorably positioned to meet all of the screening and risk management needs of Global 2000 companies.

With no long-term debt and in excess of \$10 million in cash, the new company will have a strong balance sheet and not be encumbered by outstanding debt or financial issues.

The new company will have a strong base of products and the capability to innovate and develop new products. The combination of US Search's market-leading consumer Internet business and the databases of First American will enable the new company to introduce a variety of new products and services.

This results in Ownership in a growth company

The combination of US Search with First American's screening services division will enable the combined company to provide a **full suite of solutions** to address the screening and verification management needs of both businesses and consumers.

The merger will create an excellent fit in terms of existing customer base, with **significant enterprise, small business and consumer customers** and multiple opportunities for cross-selling and up-selling of services. For example, US Search's background screening clients include Fortune 1000 companies, whereas First American's HireCheck clients include mid-sized and smaller companies.

US Search's proprietary, scalable technology makes it possible to access and intelligently assimilate information from a myriad of available databases on a fully automated basis. By implementing this scalable platform across all of its lines of business, the combined company expects to significantly improve its operating efficiency and margins.

To cap it all, we have a Best-in-class management team. The new company will have a **seasoned management team** culled from the best-in-class at both US Search and First American. Parker Kennedy, President of The First American Corporation, will serve as Chairman; John Long, currently president of First

American Screening Services, will serve as CEO; and I will serve as president of the combined company.

We will be headquartered in St. Petersburg, Florida and will have offices located across the country to support our nationwide growth strategy.

With that, I'll turn the call back to John.

John Long, President First American's Screening Information Group

Thanks Brent.

The bottom line is that First Advantage presents a platform for significant growth for all of us. As a public company First Advantage's growth should be able to create acquisition currency that will facilitate further growth and consolidation.

In addition, First American Screening Information group will be able to leverage US Search's DARWIN technology to improve operating efficiency and margins.

And the merger provides First American with new marketing channels and strong customer relationships that will provide the opportunity to sell our products and services to the enterprise and consumer markets.

As sales ramp across all market segments and we cross market our services, we believe that First Advantage will gain further leverage and drive increasing returns.

And very importantly, this deal presents tangible financial synergies.

This includes an estimated \$10 million in incremental revenues from cross selling and up selling of new products to our existing clients base, and the development of new products based on the combined products.

It also includes \$10 million in estimated reductions in our cost structure due to increased automation of fulfillment, reduced data acquisition costs, elimination of duplicative overhead, and reduction in technology implementation costs.

This merger will result in a company that is better positioned to serve the current and future needs for our customers. We will be able to offer best-in-class integrated software for the verification management. We will be able to introduce a higher degree of automation to our fulfillment and data management, so as to increase data quality and speed time to hire. And we will be able to build a flexible technology platform that our clients can use.

In conclusion, we believe that this merger is a win-win situation for the shareholders of US Search and First American. The combination is expected to result in a business with significantly greater value than its component parts due to revenue and cost synergies.

All shareholders will participate in a company with a stronger market position as the leader provider of a full range of screening services and as the pioneer in the growing verification management sector. The combined company will have:

- a leading market position;

- scalable technology to implement and from which to reap significant operational efficiencies;

- a complementary customer base in various market segments, including enterprise, small business and consumer;

- innovative products;

- profitable operations;

- and significant revenue and cost synergies;

- and the financial and managerial resources to actively pursue growth opportunities.

And, as a public vehicle with significant assets and a clear strategic focus on the screening services market, the combined company should be more attractive to financial analysts and high quality institutional investors.

With that I think we're ready to open up to questions.

Operator

Thank you. At this time we will begin our question and answer session using our polling feature. If you have a question please press *1 on your telephone.

One moment while the questions register. Our first question comes from Mike Vinciguerra from Raymond James.

Mike Vinciguerra Raymond James

Good morning guys. First question. Can you provide us with some analytics to help us better understand the 80/20 split in the ownership and basically an implied valuation on the merger?

John Long

We did an analysis of the two companies of our growth of contribution into the combination and believe that this was a good mix or good split of the two companies. We are very comfortable with that split, with the six businesses that First American put into the transaction. There were two businesses that were put into by US Search. We believe they are very complementary and 80/20 seemed like the appropriate valuation and was supported by our investment bankers.

Mike Vinciguerra

So it would be based on US Search's market cap right now of \$75 million, you might expect a market cap of the combined companies of somewhere in the mid \$300 to \$375 million range. Is that in the ballpark?

John Long: The market will value it as it feels appropriate.

Brent Cohen: The proxy will be out in the next month that will give you a lot more information.

Mike Vinciguerra

O.K. You are talking about \$160 million in revenues for 02. From my conversations with the folks at First American, indicate that screening is on a run rate for somewhere around \$175 million for 02 because of some recent acquisitions. Can you give us a run rate estimate for 2002 because I believe US Search has added some revenues over the course of the year as well.

John Long: The \$160 million that we put into this presentation is the number that we are comfortable with for the year. The \$175 million number; I am not sure I know where that came from.

Mike Vinciguerra: Apparently with the acquisitions you made of SafeRent and so forth, John, your run rate is closer to \$175 million annualized. What you had before that you included in those two acquisitions.

John Long: Ah I don't believe that is true.

Mike Vinciguerra O.K. And one last question; I'll let someone else on then the one thing that I am not sure I understand is exactly what US Search's product is all about as far as people searching. Brent, can you provide us just a little more detail on exactly what you provide to your Fortune 1000 clients.

Brent Cohen: We've got two businesses, which are the consumer business which is people location business which is using the Internet as a vehicle to find long-lost family members and friend. We get about 500,000 visits a day on our website. We go through any of the major portals Yahoo! AOL, MSN, etcetera, and you go into the people search area. When you are looking for someone and you can't find them, it automatically defers to our site. On the corporate side, the enterprise side, we have enterprise solution which is focused on the Fortune 1000 companies where we provide integrated solution with online applications with digital signatures to get around the paper from the consumer perspective all the way through compliance from the FCRA capability. Integrated into the HR systems of the customer so it would integrate with PeopleSoft and is really a full blown solution for background screening services which allows us to integrate drug screening with our combined company and the other services that there are.

Mike Vinciguerra Is there a approximate breakdown in businesses between those two sectors?

Brent Cohen It is about 65/35. 35 percent enterprise and 65 consumer.

Mike Vinciguerra O.K. Thanks very much.

Operator: Geoffrey Dunn Keefe Bruyette Woods

Geoff Dunn: Good morning guys. Looking at First American, you have bitten off two big acquisitions before EHP and SafeRent and the challenge for the coming

year is to integrate those what other challenges will this deal introduce and how will that affect the guidance you have given to us before the \$150 million plus of revenue for next year and growth rates or margins getting into low to mid teens?

John Long:

Clearly it adds two more businesses that we have to worry about consolidating HireCheck and PRSI. We will work diligently toward doing that and certainly during the planning during the period between now and closing we can do that. 2003 for us will be very much a transitional year not knowing exactly when this transaction will close, we will spend the bulk of next year working on consolidating our businesses and implementing the technology. We are very comfortable with our long-term growth rate of 20% or greater per year. And believe that probably in 2004, and on, we will start to see some significant market improvements.

Geoff Dunn: When you say that 20% long-term rate are you incorporating all of your discussion about introducing new products and cross-selling or is that the core fundamental growth rate and the rest of that is upside?

John Long: That is organic growth rate from our current businesses, it does not take into account any potentially new products or any acquisitions.

Geoff Dunn: And finally, on the margin front I think you indicated long-term margins you believe will be 30% plus. Is that right?

John Long: Yes we do.

Geoff Dunn: How long until you are able to hit that rate given sort of previous expectations for the screening businesses?

Brent Cohen: I think it will probably take us a couple of years to get there, it depends on how fast we can convert everybody over to the new platform and how fast we ramp the revenues.

Geoff Dunn: Then 2005 is a good guess?

Brent Cohen: 2005. Sure.

Geoff Dunn: I was wondering because of your margin expectation and expectation for top line growth, when does the accretion really kick in. Of course I realize that it is a small part of FAF but I think it may be more than \$0.02 for 2004.

John Long: Tom would you like to take that?

Tom Klemens: I think that the \$0.02 is a pretty conservative number Geoff. So if we exceed it, great, if not we are trying to be realistic about it.

Geoff Dunn: What is helping the expense savings?

Tom Klemens: How much?

Geoff Dunn: Yeah.

John Long: We have \$10 million in expense savings and \$10 million in cross selling and upselling.

Geoff Dunn: O.K. Thank you.

Brad Eichler - Stephens Inc.

Good morning guys. To the FAF guys, this is a nice looking way of monetizing an asset that you guys were not getting much credit for. Can you talk a little more about margins right out of the box and just look at the public information on US Search it looks like you guys have been basically at kind of breakeven with a loss of operations year to date and I know that the FAF business is operating at around a 10% margin today? In 03, excluding the \$10 million in expense savings, what type of margins is reasonable to expect from these businesses?

Brent Cohen answers: From our perspective, we've seen historical growth margins in the 17% percent range and you will see historically that the mix of business has changed as well as the growth margins have increased dramatically over the course of last year. Most of it has come from the technology implementation which has resulted in the increase in margins. I think we are going to see similar kinds of improvements on the operating leverage that is going to come about as a result of our deployment of technology across the businesses. Exactly when the full benefit of that comes into play it's a little early for me to give you that determination today.

John Long: 2003 is a tough year for us because of the timing of when the transaction closes and then the actual implementation of the technology and of the synergies related to some of the acquisitions.

Brad Eichler O.K. You talked a little bit about the five business segments and then gave us what you believe to be your market share. Could you talk a little bit about the percent of total revenue, the 160 number, and roughly, how much of it is represented by each of those businesses or segments?

John Long answers: Can I answer that? For public disclosure purposes?

Attorney answers: Yes.

John Long answers: Approximately \$35-40 million in motor vehicle record searches, the \$30-35 million range for criminal background checks, \$40 million range for drug screening, \$40 plus million range for tenant screening. Consumer what do we have today \$20 million? \$20 million plus for consumer. It may not exactly add up but it is approximate.

Brad Eichler Is this going to be a tax-free deal for FAF?

Tom Klemens: Yes.

Brad Eichler Can we get a little bit of background as to how this transaction came about. Was there a process that US Search was going through and this was something that looked interesting to you guys at FAF or ?

John Long: I think that Brent and I were both exploring different possibilities of ways that we could advance our businesses. We met seven or eight months ago and started to talk about this possibility. As we got to know each other and got more comfortable, it seemed like a logical transaction for us. Both businesses had strategies to build a business like this. It certainly seemed better to join together than to compete directly. It is a very complementary management team. The US Search team has very strong benefits that they can add to the combined company. They will really enhance, I think, the overall success of the company. I feel very good about this mix. Brent do you have any other comments?

Brent Cohen: No. I think that is exactly right. We were both pursuing a growth strategy which included doing a number of acquisitions and we came across each other in the course of that process. The complementarity of the two businesses plus the unique information availability from First American for our consumer businesses made it very attractive to us.

Parker Kennedy: Brad, this is Park. We also at the board level talked with John about the best way to realize the value of that segment. Because the segment operates independently of our other segments, it is the kind of thing that works well for a carve out. So we talked to John about looking for a vehicle that could help us go public.

Brad Eichler Thanks. Congratulations

Terry Lally Cramer Rosenthal: Good morning. Can you talk about the individual segments and growth rates you expect in these individual segments?

Brent Cohen: We have management estimates of what we consider to be growth rates from the various areas in which we are participating. There has been very little formal research that has been done in that regard. We see the background screening market as having enormous growth. I think only 15% of employees are screened today. The drug screening market place has less of a growth rate than the background screening area. But there are a number of people in the background screening area who are now only starting to add drug screening to their process. The consumer business is a wild card business because we do not really know how big it can grow given the accessibility we have now to all the additional information from our relationship with First American. There are significant growth opportunities as well as in the areas of tenant screening and the motor vehicle area. We do not have the specifics in terms of growth rates in the industry as it pertains to growth rates. We

feel very comfortable from our perspective and the basis of where we are, that we can grow with a compound annual growth rate of 20%.

Terry Lally: You talk about over and under, like say in background having a higher growth rate. Is that higher than the 20% where drug came under 20% or would both the segments actually be north of 20%?

John Long: It is hard to answer that. Remember, one of the opportunities here is the cross selling. One of our major focuses right out of the gate here is to sell different products to each others' clients. We have a lot of companies in the mix here. Over the next couple of years we anticipate major penetration within our client base of other products which we are selling including things like employee assistance program. It is a very small business for now, but it could be a very large one over time. I do not want to speculate per se where the bulk of that will come from. We are very comfortable that these businesses will collectively grow 20% or more. We will definitely try to take advantage of our best opportunities in the near time.

Terry Lally: What is the proforma EBITDA?

John Long: That will all be available when the proxy is released in approximately 30 days.

Terry Lally: The \$10 million in cost synergies you talked about can you quantify the specific synergies and how much is coming from each category?

John Long: I am sorry I did not hear that?

Terry Lally: The \$10 million in cost synergies can you quantify how much is coming from each specific category?

Brent Cohen: I think it is too difficult for us to identify the category it comes from but the costs are largely coming from the data acquisition a high degree of process automation using our technology . . . value added products that are coming from the unique data assets that we are gaining access to. I think that much of this is coming from those areas.

Terry Lally: How much is coming from duplicate overhead?

Brent Cohen: Most of our businesses are pretty complementary there is not that much overlap.

Terry Lally: You do not want to get into one million here, two million there?

John Long: I think we are comfortable making the statement of \$10 million, but dissecting it, I don't think is appropriate.

Terry Lally: I am just asking, I am trying to get to if it is very achievable . . .

John Long: We think it is very achievable and a considerable amount of thought was put into this presentation.

Terry Lally: For modeling purposes, what is tax rate and the number of shares outstanding?

John Long: We are anticipating a reverse split which will be in the proxy. It will be close to 1 to 25 based on approximately 20 million shares outstanding, tax free. There are some tax benefits that the company will have from some of the historical losses at US Search. we cannot use them all, but we can use some of them. So the tax rate may be tricky.

Terry Lally: It is great to see you are entering into transactions to monetize the value of the assets, especially with the premiums based on the \$180 million you put into the businesses.

Ashley Smith Stonegate Securities Good morning gentlemen and congratulations

All: Thank you.

Ashley Smith Great job. A lot of the other things that has been covered already, but do you guys expect to be initiating any acquisitions. This is a rapidly consolidating area and I am sure that there is a lot of competition out there.

John Long: I would say that we will be looking at opportunities between now and closing, especially now that this is public and we can talk about the new company, to potential acquiring companies. Exactly what opportunities will be there for us Things are happening very quickly within this industry and we will do our best to keep up.

Ashley Smith: The companies you are considering targeting are they within the current five segments? If so, which ones or is it something that would be an indication that would be a sixth segment?

John Long: I think we are focused near term on market share improvement and margin improvement in our core businesses today. So I don't see us wandering too far out of this at this point. Although you never know what business opportunities may come up. We want to stay focused on these businesses that we have already invested a lot of money in and we have a lot of work ahead.

Ashley Smith That is all I have and again congratulations. Looking forward to watching this.

Irwin Friedman - Freidman: Congratulations guys, great transaction. Can you explain the structure of the transaction whether it will be a reverse merger issuance of additional US Search shares. What will the pro forma capitalization look like?

John Long: We will be merging the screening services businesses of First American called First Advantage Corp with US Search shareholders today. It will be new security issue of which US Search shareholders will own 20%. First American will own approximately 80% of the new security that is issued.

Irwin Friedman - The new security will be issued to both the US Search shareholders as well as to the....

Brent Cohen: That s right.

Operator: That s all that we have time for questions. I would like to turn the meeting back over to Mr. John Long final comments.

John Long: Thanks for participating in this call. We look forward to sharing additional information about First Advantage Corporation as it becomes available. Thank you so much for your time.

Operator: You may now disconnect.

Additional Information Included in Transcripts Available for Download

US SEARCH intends to file with the SEC a proxy statement / prospectus and other relevant materials in connection with the proposed combination of US SEARCH and the screening services division of The First American Corporation. The proxy statement / prospectus will be mailed to the US SEARCH stockholders. Security holders of US SEARCH are urged to read the proxy statement / prospectus and the other relevant materials when they become available because they will contain important information about US SEARCH and the proposed combination. The proxy statement / prospectus and other relevant materials (when they become available), and any other documents filed by US SEARCH with the SEC, may be obtained free of charge at the SEC s web site at www.sec.gov. In addition, US SEARCH security holders may obtain free copies of the documents filed with the SEC by US SEARCH by directing a request to: US SEARCH.COM Inc., 5401 Beethoven Street, Los Angeles, California 90066, Attn: Investor Relations. US SEARCH security holders are urged to read the proxy statement / prospectus and the other relevant materials when they become available before making any voting or investment decision with respect to the proposed combination.

TH="3%"> Operating loss (13)%(26)%Interest income, net 1 %1 %Cumulative Effect 8 %

Net loss (12)%(17)%

YEAR ENDED JUNE 30, 2002, COMPARED TO YEAR ENDED JUNE 30, 2001,

Revenues for fiscal 2002 increased 47% in total as compared to the prior year due to continued penetration of target markets which resulted in strong revenue growth of 21% for the Sharps Disposal by Mail System , 13% for SureTemp Totes, 10% for Pitch-It IV Pole systems, 1% for the Pump

Return Box and 2% for all others. During year ended June 30, 2002, the sale of products contributed 71% to total revenue while incineration, transportation and other services contributed 8%, 20%, and 1%, respectively, to total revenue. Product sales in fiscal year 2001 were 64% to total revenue while incineration, transportation and other services contributed 9%, 25%, and 2%, respectively, to total revenue. The Company expects that its results of operations will continue to fluctuate between periods based upon the timing and level of sales to distributors.

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Cost of Revenue increased as a percent of revenue by 10% due to increases in product costs of 5%, operating inefficiencies, incremental costs associated with a short-term service contract with a third party for incinerator services of 3% and higher shipping costs of 2%. The cost of revenue on products contributed 54% to total cost of revenue while incineration and transportation contributed 17% and 29%, respectively, to total cost of revenue during fiscal year 2002. The cost of revenue on products contributed 43% to total cost of revenue while incineration and transportation contributed 15% and 42%, respectively, to total cost of revenue during fiscal year 2001.

Selling, general and administrative expenses declined as a percent of revenue to 44% in 2002 from 66% in 2001. The decline is due to increased sales and our ability to leverage the existing cost structure to support the new growth offset by increased commissions due to sales growth.

The net loss from operations reduced in 2002 from 2001 by approximately 5%. This improvement is substantially due to increased sales leveraging the existing cost structure.

LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2002, the Company had approximately \$1,010,000 compared to approximately \$345,000 in 2001 in cash and short-term investments. Current assets exceeded current liabilities by approximately \$447,000 at June 30, 2002 compared to a deficit of approximately \$32,000 in 2001. On October 12, 2001, the Company completed a private placement of 1,100,000 shares of its common stock for gross proceeds of \$1,210,000, which improved the Company's working capital position.

Capital expenditures during the year ended June 30, 2002 were approximately \$145,000 and consisted of computers, computer software development, computer networking related equipment and tooling for manufactured products. The Company expects capital expenditures to generally continue at this level through fiscal year 2003.

The Company completed an agreement with a financial institution, on August 30, 2002 for a \$1.25 million asset based line of credit. (See note 12 of the consolidated financial statements.) Management believes that the Company's current resources will be sufficient to fund operations through calendar year 2003.

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QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following table sets forth selected quarterly information for 2002 and 2001. We believe that all necessary adjustments and restatements have been included in the amounts below to present fairly the results of such periods. The effect of the restatements has been reflected in each quarter.

	QUARTER ENDED 2002 As Reported Herein			
	SEPTEMBER 30	DECEMBER 31	MARCH 31	JUNE 30
As Restated				
Total Revenues	\$ 1,473,760	\$ 1,490,892	\$ 1,620,794	\$ 1,927,579
Costs of Revenues	\$ 1,046,725	\$ 1,076,405	\$ 1,004,473	\$ 1,233,469
Operating income (loss)	\$ (233,947)	\$ (407,486)	\$ (59,903)	\$ (157,314)
Cumulative Effect				
Net Income (loss)	\$ (221,493)	\$ (396,619)	\$ (51,866)	\$ (149,060)
Net Income (loss) per share	\$ (.03)	\$ (.05)	\$ (.01)	\$ (.02)
Weighted average shares basic and diluted	8,705,356	9,661,878	9,820,899	9,822,023
QUARTER ENDED 2002				
	SEPTEMBER 30	DECEMBER 31	MARCH 31	JUNE 30
As Previously Reported				

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QUARTER ENDED 2002

Total Revenues	\$	1,702,410	\$	1,481,701	\$	1,770,214
Costs of Revenues	\$	1,144,177	\$	1,027,582	\$	1,021,821
Operating income (loss)	\$	(172,739)	\$	(444,228)	\$	(4,420)
Net Income (loss)	\$	(160,287)	\$	(433,622)	\$	3,618
Net Income (loss) per share	\$	(.02)	\$	(.04)	\$.00
Weighted average shares basic and diluted		8,705,356		9,661,878		9,820,899

QUARTER ENDED 2001

	SEPTEMBER 30	DECEMBER 31	MARCH 31	JUNE 30
As Restated				
Total Revenues	\$ 939,526	\$ 1,036,491	\$ 1,012,738	\$ 1,428,683
Costs of Revenues	\$ 80,532	\$ 687,663	\$ 806,479	\$ 949,067
Operating income (loss)	\$ 183,472	\$ (415,411)	\$ (510,905)	\$ (390,113)
Cumulative Effect	\$ 332,750			\$
Net Income (loss)	\$ 526,490	\$ (407,022)	\$ (509,316)	\$ (371,732)
Net Income (loss) per share	\$.07	\$ (.05)	\$ (.06)	\$ (.04)
Weighted average shares basic and diluted	7,952,531	8,626,444	8,626,444	8,647,123

QUARTER ENDED 2001

	SEPTEMBER 30	DECEMBER 31	MARCH 31	JUNE 30
As Previously Reported				
Total Revenues	\$ 989,673	\$ 1,146,823	\$ 1,182,787	\$ 1,332,020
Costs of Revenues	\$ 536,229	\$ 724,610	\$ 209,599	\$ 862,579
Operating income (loss)	\$ (289,094)	\$ (416,204)	\$ 183,175	\$ (478,052)
Cumulative Effect				\$
Net Income (loss)	\$ (278,827)	\$ (407,815)	\$ 184,714	\$ (459,622)
Net Income (loss) per share	\$ (.04)	\$ (.05)	\$.02	\$ (.05)
Weighted average shares basic and diluted	7,952,531	8,626,444	8,626,444	8,647,123

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CRITICAL ACCOUNTING POLICIES

Inventory: Inventory consists primarily of finished goods and supplies held for sale and are stated at the lower of cost using the average cost method or market.

Realization of Long-lived Assets: The Company evaluates the recoverability of property and equipment and intangible or other assets if facts and circumstances indicate that any of those assets might be impaired. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if a write-down to market value or discounted cash flow value is necessary.

Revenue Recognition: The Company's prior revenue recognition policy was to recognize all revenue except for incineration at point of original sale of the product. Furthermore, the Company used a conservative estimate for the return rate. The Company has since revised its adoption of the Securities and Exchange Commission's ("SEC") Staff Accounting Bulletin No. 101, "Revenue Recognition" ("SAB No. 101"), which provides guidance related to revenue recognition based on interpretations and practices followed by the Securities and Exchange Commission. Under the revisions, certain products offered by the Company have revenue producing components that are recognized over multiple delivery points and can consist of up to three separate elements as follows: (1) the sale of the container system, (2) the transportation of the container system and (3) the treatment and disposal (incineration) of the container system. The individual fair value of the transportation and incineration services are determined by the sales price of the service offered by third parties, with the fair value of the container being the residual value. Revenue for the sale of the container is recognized upon delivery to the customer, which is when the customer takes title and assumes risk of ownership. Transportation revenue is recognized when the customer returns the mailback container system and the container has been received at the Company's treatment facility. Usually, the container system is mailed to the incineration facility using the U.S. Postal Service. Incineration revenue is recognized upon the destruction and certification of destruction having been prepared on the container. Since the transportation element and the incineration elements are undelivered services at the point of initial sale of the container, the revenue is deferred

until the services are performed. The current and long-term portions of deferred revenues are determined through regression analysis and historical trends. Furthermore, through regression analysis of historical data, the Company has determined that a certain percentage of all container systems sold may not be returned. Accordingly, a portion of the transportation and incineration elements are recognized at the point of sale.

Shipping and Handling Fees and Costs: The Company records amounts billed to customers for shipping and handling as revenue. Costs incurred by the Company for shipping and handling have been classified as cost of revenue.

Income Taxes: The liability method is used in accounting for deferred income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The realizability of deferred tax assets is evaluated annually and a valuation allowance is provided if the deferred tax assets, more likely than not, will not give rise to future benefits in the Company's tax returns.

Segment Reporting: SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," requires that a public business enterprise report financial and descriptive information about its operating segments. Generally, financial information is required to be reported on the basis used internally for evaluating segment performance and resource allocation. The Company operates in a single segment, focusing on developing cost effective, logistical and educational solutions for healthcare and non-healthcare institutional markets.

RECENTLY ISSUED ACCOUNTING STANDARDS

In July 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 142, "Goodwill and Other Intangible Assets." Under No. SFAS 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives. The amortization provisions of SFAS No. 142 apply to goodwill and intangible assets acquired after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, the Company is required to adopt SFAS No. 142 effective July 1, 2002. Management does not believe that this statement will have a material impact on the results of operations or financial conditions of the Company at the time of adoption.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" which covers all legally enforceable obligations associated with the retirement of tangible long-lived assets and provides the accounting and reporting requirements for such obligations. SFAS No. 143 is effective for the Company beginning January 1, 2003. Management does not believe that the adoption of SFAS No. 143 will have a material impact on the results of operations or financial condition of the Company at the time of adoption.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." SFAS No. 144 establishes a single accounting method for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired, and extends the presentation of discontinued operations to include more disposal transactions. SFAS No. 144 also require that an impairment loss be recognized for assets held-for-use when the carrying amount of an asset is not recoverable. The carrying amount of an asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset, excluding interest charges. Estimates of future cash flows used to test the recoverability of a long-lived asset must incorporate the entity's own assumptions about its use of the asset and must factor in all available evidence. Management does not believe that the adoption of SFAS No. 144 will have a material impact on the results of operations or financial condition of the Company at the time of adoption.

In April 2002, the FASB issued SFAS No. 145, "Rescission of SFAS No. 4, 44 and 64, Amendment of SFAS Statement No. 13, and Technical Corrections." This statement rescinds the following statement of SFAS 4, "Reporting Gains and Losses from Extinguishment of Debt," and its amendment SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking Fund Requirements," as well as, SFAS No. 44, "Accounting for Intangible Assets of Motor Carriers." The statement also amends SFAS No. 13, "Accounting for Leases", by eliminating an inconsistency between the required accounting for sale- leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. SFAS No. 145 is effective for fiscal years beginning after May 15, 2002. Management does not believe that this statement will have a material impact on the results of operations or financial conditions of the Company at the time of adoption.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities", which nullifies Emerging Issues Task Force ("EITF") Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to

Exit an Activity (Including Certain Costs Incurred in a Restructuring)." Under the terms of SFAS No. 146, the statement requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred rather than at the date an entity commits to an exit plan. The effective date of the statement is for exit or disposal activities initiated after December 31, 2002 with early application encouraged. Management does not believe that this statement will have a material impact on the results of operations or financial conditions of the Company at the time of adoption.

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ITEM 6. FINANCIAL STATEMENTS

The financial statements of the Company and the related report of the Company's independent accountants thereon are included in this report and are referenced as pages F-1 to F-20.

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PART III

ITEM 7. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS OF THE REGISTRANT; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

The information required by this item is incorporated herein by reference to the information under the caption "Management," of the Registrant's definitive Proxy Statement to be filed pursuant to Regulation 14A with the Securities and Exchange Commission ("SEC") relating to its Annual Meeting of Stockholders to be held on October 23, 2002.

Paragraph 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's executive officers and directors, and persons who beneficially own more than 10% of the Company's equity securities, to file reports of security ownership and changes in such ownership with the SEC. Officers, directors and greater than 10% beneficial owners also are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file.

To the Company's knowledge, based solely on review of the copies of such reports furnished to the Company, during the fiscal year ended June 30, 2002, all Section 16(a) filing requirements applicable to its officers, directors and greater than 10% beneficial owners were complied with.

ITEM 8. EXECUTIVE COMPENSATION

The information required by this item is incorporated herein by reference to the information under the captions "Management" and "Executive Compensation" of the Registrant's definitive Proxy Statement to be filed pursuant to Regulation 14A with the SEC relating to its Annual Meeting of Stockholders to be held on October 23, 2002.

ITEM 9. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this item is incorporated herein by reference to the information under the captions "Security Ownership of Management" and "Certain Beneficial Owners," of the Registrant's definitive Proxy Statement to be filed pursuant to Regulation 14A with the SEC relating to its Annual Meeting of Stockholders to be held on October 23, 2002.

ITEM 10. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is incorporated herein by reference to the information under the caption "Certain Relationships and Related Transactions," of the Registrant's definitive Proxy Statement to be filed pursuant to Regulation 14A with the SEC relating to its Annual

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Meeting of Stockholders to be held on October 23, 2002.

ITEM 11. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibit Number	Description of Exhibit
2.2	Agreement and Plan of Reorganization dated as of February 27, 1998, between and among U.S. Medical Systems, Inc., Sharps Compliance, Inc. and its Stockholders (incorporated by reference from Exhibit 2.2 to 2/27/98 Form 8-K)
3.4	Bylaws of Company (incorporated by reference from Exhibit 3.4 to 6/30/94 Form 10-KSB)
3.6	Certificate of Elimination of the Series "A" Voting Convertible Preferred Stock (incorporated by reference from Exhibit 3.6 to 6/30/98 Form 10-KSB)
4.4	Specimen Stock Certificate (incorporated by reference from Exhibit 4.4 to 6/30/98 Form 10-KSB)
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10.29	Employment Agreement effective January 1, 1998, by and between Sharps Compliance, Inc. and Dr. Burt Kunik, and First Amendment to Employment Agreement (incorporated by reference from Exhibit 10.29 to 6/30/98 Form 10-KSB)
10.30	Second Amendment to Employment Agreement dated May 15, 1998, (incorporated by reference from Exhibit 10.30 to 6/30/98 Form 10-KSB)
10.31	Exclusive Distributorship Agreement dated April 1, 1998 between Pro-Tec Containers, Inc. and Sharps Compliance, Inc. (incorporated by reference from Exhibit 10.31 to 6/30/98 Form 10-KSB)
10.32	Purchase Agreement between IVY Green Corporation and Sharps Compliance, Inc., dated June 19, 1998, (incorporated by reference from Exhibit 10.32 to 6/30/98 Form 10-KSB)
10.33	Lease Agreement between Lakes Technology Center, Ltd. and Sharps Compliance, Inc. dated August 1, 1998, (incorporated by reference from Exhibit 10.33 to 6/30/98 Form 10-KSB)
10.34	Severance Agreement dated September 2, 1998, between C. Lee Cooke, Jr. and Sharps Compliance Corp. (formerly known as U.S. Medical Systems, Inc.) (incorporated by reference from Exhibit 10.34 to 6/30/98 Form 10-KSB)
16.4	Letter regarding changes in Certifying Accountant to Arthur Andersen LLP (incorporated by reference from Form 10-KSB dated 6/30/98)
16.5	Letter regarding changes in Certifying Accountant to Mann Frankfort Stein & Lipp CPAs L.L.P (incorporated by reference from Form 8-K dated January 11, 2002).
21.1	Subsidiaries (filed herewith)
99.1	Certification of Chief Executive Officer (filed herewith)
99.2	Certification of Chief Financial Officer (filed herewith)

(b) Reports on Form 8-K

None

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

REGISTRANT:

SHARPS COMPLIANCE CORP

Dated: September 17, 2002

By: /s/ BURTON J. KUNIK

Dr. Burton J. Kunik, Chairman of the Board, and
Chief Executive Officer

By: /s/ GARY L. SHELL

Gary L. Shell, Vice President and Chief Financial Officer

SHARPS COMPLIANCE CORP. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders of Sharps Compliance Corp.
Houston, Texas

We have audited the accompanying consolidated balance sheet of Sharps Compliance Corp. (a Delaware corporation) and subsidiaries as of June 30, 2002, and the related consolidated statements of operations, stockholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sharps Compliance Corp. and subsidiaries as of June 30, 2002, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 1 and 11 to the consolidated financial statements, the Company changed its method of accounting for revenues for the year ended June 30, 2001. Also, as discussed in Note 11, the accompanying consolidated financial statements as of and for the year ended June 30, 2001 have been restated.

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We also audited the adjustments described in Note 11 that were applied to restate the June 30, 2001 consolidated financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

/s/ MANN FRANKFORT STEIN & LIPP CPAs, L.L.P.

Houston, Texas
September 9, 2002

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders of Sharps Compliance Corp.:

We have audited the accompanying consolidated balance sheets of Sharps Compliance Corp. (a Delaware corporation) and subsidiaries as of June 30, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for the years ended June 30, 2001 and 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sharps Compliance Corp. and subsidiaries as of June 30, 2001 and 2000, and the results of their operations and their cash flows for the years ended June 30, 2001 and 2000, in conformity with accounting principles generally accepted in the United States.

/s/ ARTHUR ANDERSEN L.L.P.

Houston, Texas
September 18, 2001 (except with respect to the
matter discussed in Note 11, as to which the date
is October 11, 2001)

THIS REPORT IS A COPY OF A PREVIOUSLY ISSUED ARTHUR ANDERSEN L.L.P. REPORT AND IT HAS NOT BEEN REISSUED BY ARTHUR ANDERSEN L.L.P.

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SHARPS COMPLIANCE CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

June 30,	
2001	2002

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	June 30,	
	(As Restated)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 133,363	\$ 107,275
Short-term investments	876,287	237,941
Accounts receivable, net of allowance for doubtful accounts of \$9,489 and \$26,500, respectively	784,466	709,274
Inventory	331,463	223,207
Prepays and other assets	219,406	149,740
TOTAL CURRENT ASSETS	2,344,985	1,427,437
PROPERTY AND EQUIPMENT, net of accumulated depreciation of \$299,454 and \$226,907, respectively	269,990	221,427
INTANGIBLE ASSETS, net of accumulated amortization of \$80,979 and \$60,735, respectively	20,246	40,490
NOTE RECEIVABLE FROM STOCKHOLDER	320,000	320,000
OTHER ASSETS	37,294	11,695
TOTAL ASSETS	\$ 2,992,515	\$ 2,021,049
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 636,124	\$ 560,954
Accrued liabilities	290,440	136,947
Deferred revenue pump return	323,088	195,669
Current portion of deferred revenue incineration	114,212	97,190
Current portion of deferred revenue transportation	419,370	339,200
Notes payable and current portion of long-term debt	114,429	129,299
TOTAL CURRENT LIABILITIES	1,897,663	1,459,259
LONG-TERM DEFERRED REVENUE INCINERATION, net of current portion	53,745	45,736
LONG-TERM DEFERRED REVENUE TRANSPORTATION, net of current portion	197,351	159,624
LONG-TERM DEBT, net of current portion	24,227	2,745
TOTAL LIABILITIES	2,172,986	1,667,364
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common stock, \$.01 par value per share; 20,000,000 shares authorized; 9,822,023 and 8,705,356 shares issued and outstanding, respectively	98,220	87,053
Additional paid-in capital	6,846,313	5,572,598
Accumulated deficit	(6,125,004)	(5,305,966)
TOTAL STOCKHOLDERS' EQUITY	819,529	353,685
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 2,992,515	\$ 2,021,049

See accompanying notes to consolidated financial statements.

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SHARPS COMPLIANCE CORP. AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF OPERATIONS**

	Year Ended June 30,	
	2002	2001
		(As Restated)
REVENUES		
Sales, net	\$ 5,963,081	\$ 3,931,819
Consulting services and environmental	549,944	485,619
TOTAL REVENUES	6,513,025	4,417,438
COSTS AND EXPENSES		
Cost of revenues	4,361,072	2,523,738
Selling, general and administrative	2,893,205	2,914,292
Depreciation and amortization	117,398	112,360
TOTAL COSTS AND EXPENSES	7,371,675	5,550,390
LOSS FROM OPERATIONS	(858,650)	(1,132,952)
OTHER INCOME (EXPENSE)		
Interest income	41,721	44,910
Interest expense	(2,109)	(6,285)
TOTAL OTHER INCOME (EXPENSE)	39,612	38,625
LOSS BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	(819,038)	(1,094,327)
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE (Note 11)		332,748
NET LOSS	\$ (819,038)	\$ (761,579)
BASIC AND DILUTED LOSS PER COMMON SHARE		
Loss before cumulative effect	\$ (.09)	\$ (.13)
Cumulative effect		.04
As restated	\$ (.09)	\$ (.09)

	Year Ended June 30,	
WEIGHTED AVERAGE SHARES USED IN COMPUTING BASIC AND DILUTED NET LOSS PER COMMON SHARE	9,502,888	8,461,986

See accompanying notes to consolidated financial statements.

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SHARPS COMPLIANCE CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount			
Balances, June 30, 2000	7,626,444	\$ 76,264	\$ 4,392,188	\$ (4,544,387)	\$ (75,935)
Issuance of common stock for services provided	78,912	789	52,704		53,493
Issuance of common stock for cash	1,000,000	10,000	990,000		1,000,000
Issuance of options for services provided			137,706		137,706
Net loss, as restated				(761,579)	(761,579)
Balances, June 30, 2001, as restated	8,705,356	87,053	5,572,598	(5,305,966)	353,685
Issuance of common stock for cash	1,116,667	11,167	1,215,500		1,226,667
Issuance of options for services provided			58,215		58,215
Net loss				(819,038)	(819,038)
Balances, June 30, 2002, as reported	9,822,023	\$ 98,220	\$ 6,846,313	\$ (6,125,004)	\$ 819,529

See accompanying notes to consolidated financial statements.

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SHARPS COMPLIANCE CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended June 30,	
	2002	2001
		(As Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (819,038)	\$ (761,579)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	117,398	112,360
Stock based compensation and amortization of deferred compensation	58,215	191,199

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	Year Ended June 30,	
Bad debt expense	7,000	
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	(82,192)	69,369
Increase in inventory	(108,256)	(2,102)
Increase in prepaids and other assets	(95,265)	(64,604)
Increase in accounts payable and accrued liabilities	228,663	214,276
Increase (decrease) in accrued disposal costs		(1,371,193)
Increase in deferred revenue	270,347	837,419
NET CASH USED IN OPERATING ACTIVITIES	(423,128)	(774,855)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(145,717)	(132,805)
Proceeds from sales of short-term investments	748,991	317,001
Purchases of short-term investments	(1,387,337)	(513,958)
NET CASH USED IN INVESTING ACTIVITIES	(784,063)	(329,762)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of common stock	1,226,667	1,000,000
Payments on notes payable	(220,770)	(111,141)
Borrowings on notes payable	227,382	169,687
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,233,279	1,058,546
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	26,088	(46,071)
CASH AND CASH EQUIVALENTS, beginning of year	107,275	153,346
CASH AND CASH EQUIVALENTS, end of year	\$ 133,363	\$ 107,275
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	\$ 2,108	\$ 6,285

See accompanying notes to consolidated financial statements.

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SHARPS COMPLIANCE CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2002 AND 2001

NOTE 1 ORGANIZATION AND BACKGROUND

Organization: The accompanying consolidated financial statements include the financial transactions and accounts of Sharps Compliance Corp. (formerly U.S. Medical Systems, Inc.) and its wholly owned subsidiaries, Sharps Compliance, Inc. of Texas, dba Sharps Compliance, Inc., Sharps e-Tools.com, Inc. ("Sharps e-Tools"), and Sharps Environmental Services, Inc., dba Sharps Environmental Services of Texas, Inc.

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(collectively, "Sharps" or "Company"). All significant intercompany accounts and transactions have been eliminated upon consolidation.

Business Products: The Company focuses on developing cost effective, logistical and educational solutions for healthcare and non-healthcare institutional markets. These solutions include Sharps Disposal by Mail System , Pitch-It IV Poles, Sharps SureTemp Tote , Trip LesSystem , Sharps asset return boxes, Sharps e-Tools, Sharps Environmental Services, and Sharps Consulting. The Company's products and services are provided primarily to create cost and logistical efficiencies. These products and services facilitate compliance with certain state and federal regulations, as well as compliance with educational and training requirements required by federal, state, local and regulatory agencies.

The Sharps Disposal by Mail System is a comprehensive solution for the containment, transportation, destruction and tracking of medical waste for the commercial, industrial and home healthcare industries. The Sharps Disposal by Mail System contains a securely sealed, leak and puncture resistant sharps container in several sizes; U.S. Postal Service approved shipping carton with priority mail postage; absorbent material inside the container that can hold up to 150 milliliters of waste; a red bag for additional containment; and complete documentation and tracking manifest. Customers who use the Sharps Disposal by Mail System are responsible for mailing the systems to the Company's disposal facility for incineration (i.e. Sharps Environmental Services).

The Pitch-It IV Pole systems are designed as a cost effective, portable, lightweight and disposable alternative to traditional IV poles used for gravity-fed or pump-administered infusions. The innovative pole design provides opportunities for the home healthcare industry to improve logistical efficiencies through elimination of traditional delivery and pickup of IV poles. The Pitch-It poles are available in three models: (i) tabletop, (ii) floor and (iii) full-size with wheels.

The Sharps SureTemp Tote is a disposable cooler that maintains a safe range for temperature-sensitive materials. Sharps primarily markets the product to home healthcare providers to protect IV medications used in home infusion

The Trip LesSystem is a solution for the home healthcare (commercial) industry that will eliminate multiple trips to the patient's home by providers after treatment has been completed. The Trip LesSystem has combined two complete programs for return and disposal. All systems contain the Sharps Disposal by Mail System along with either (i) a prepaid pump return box or (ii) a Pitch-It IV Pole system, depending on the patient's therapy.

Sharps' asset return boxes, the Sharps Pump Return Box and Sharps Enteral Pump Return Box, are marketed to home healthcare providers, primarily for use with home infusion patients. These products provide delivery and retrieval of expensive equipment, like infusion and Enteral pumps.

The Sharps e-Tools online services include SharpsTracer , AssetTracer and ComplianceTrak. SharpsTracer is a manifest imaging and tracking program for registered customers with the purpose of tracking and certifying the transportation and disposal of regulated medical waste. SharpsTracer

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eliminates traditional paper-based methods of manifest tracking and is designed to enhance customer efficiencies with an automatic Proof of Destruction, Market Data Collection abilities and Return to Store Programs capabilities. AssetTracer allows its registered subscribers to manage all types of capital assets through a single, organized database. The program can be used in conjunction with other Company products or independently and includes management reporting for regulatory compliance, preventative maintenance, and asset status and/or location. ComplianceTrak offers a broad range of employee centered compliance and education programs. The programs range from policy and procedure development to specialized training and certification for all employees required to meet certain Occupational Safety and Health Administration ("OSHA") standards.

Sharps Environmental Services provides environmental solutions for customers with a wide variety of waste disposal needs. Destruction and disposals are the primary services which are available to the Company's affiliates, as well as to its and other customers and includes destruction and disposal of, among other things, (i) medical waste, (ii) legal and confidential documents, (iii) pharmaceutical products, and (iv) non-hazardous industrial waste. This service also allows the Company to directly oversee the proper disposal of its Sharps Disposal by Mail Systems and allows the Company to provide its proprietary SharpsTracer . Prior to July 1, 2000, the Company outsourced these functions to a facility managed and operated by the Panola County Resource Recovery Facility. Effective July 1, 2000, the Company entered into an agreement with the City of Carthage and Panola County, Texas to manage and operate the Panola County Resources Recovery Facility, a municipally owned incinerator. The agreement has been amended to extend until June 30, 2012.

Sharps Consulting provides a broad range of services including (i) analysis of legal and regulatory implications of present waste handling practices, (ii) communicating new legislation and industry best practices for minimizing employee exposure and liability, (iii) serving as

intermediary with regulatory agencies and (iv) educating staff on the dangers of improper medical wastes and infection control practices.

Concentrations of Customers and Suppliers: Although the Company has experienced growth in revenues over the past few years, there is an inherent concentration of credit risk associated with accounts receivable arising from sales to its major customers, which are primarily distributors. For the years ended June 30, 2002 and 2001, four customers represented approximately 56% and 64% of revenues, respectively. The same four customers comprised approximately 46% (or \$363,000) of the total accounts receivable balance at June 30, 2002, and 58% (or \$420,000) at June 30, 2001. The Company may be affected by its dependence on a limited number of high volume customers. Management believes that the risk is mitigated by (i) the contractual relationships with the end user of the products and reputation of the Company's major customers, (ii) a loss of any distributor does not necessarily mean the loss of the underlying customer base of that distributor for the Company's products and services and (iii) the Company's continued diversification of its products and services.

Sharps continues to sole-source transportation, which consists of delivering the Sharps Disposal by Mail System from the end user to the Company's facility. Transportation is currently sole-sourced to the United States Postal Service. Management believes the risk of dependence is mitigated by the long-standing business relationship. Although there are no assurances with regard to the continued future business association, management believes that alternative sources would be available.

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Liquidity: The Company has incurred cumulative losses since its inception. The future success of Sharps is dependent upon many factors, including environmental regulation, continuity of its distributorship agreements, successful completion of its product development activities and the identification and penetration of additional markets for its products and services. Management believes that the Company's current resources will be sufficient to fund operations through calendar year 2003. There can be no assurance that the Company will be able to obtain financing on acceptable terms to fund operations beyond that time frame; however, management believes that it will be successful in raising such financing, if necessary. Additionally the Company completed an agreement with a financial institution, on August 30, 2002, for a \$1.25 million asset based line of credit. (See Note 12 of the consolidated financial statements.)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash Equivalents and Short-term Investments: The Company considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents. Short-term investments consist of certificates of deposit with original maturities greater than three months but less than one year. Short-term investments are classified as held-to-maturity and are classified at amortized cost.

Inventory: Inventory consists primarily of finished goods and supplies held for sale and are stated at the lower of cost using the average cost method or market.

Property and Equipment: Property and equipment is stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method based on the estimated useful lives of the assets. Additions, improvements and renewals significantly adding to the asset value or extending the life of the asset are capitalized. Ordinary maintenance and repairs, which do not extend the physical or economic life of the property or equipment, are charged to expense as incurred. During each of the years ended June 30, 2002 and 2001, the Company recorded depreciation expense of \$97,154 and \$92,114, respectively.

Intangible Assets: Intangible assets consist of costs related to two patents acquired in June 1998. The patents are being amortized over their estimated useful lives of five years. During each of the years ended June 30, 2002 and 2001, the Company recorded amortization expense of \$20,244 and \$20,246, respectively. Accumulated amortization at June 30, 2002 and 2001 was \$80,979 and \$60,735, respectively.

Realization of Long-lived Assets: The Company evaluates the recoverability of property and equipment and intangible or other assets if facts and circumstances indicate that any of those assets might be impaired. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if a write-down to market value or discounted cash flow value is necessary.

Revenue Recognition: The Company's prior revenue recognition policy was to recognize all revenue except for incineration at point of original sale of the product. Furthermore, the Company used a conservative estimate for the return rate. The Company has since revised its adoption of the Securities and Exchange Commission's ("SEC") Staff Accounting Bulletin No. 101, "Revenue

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Recognition" ("SAB No. 101"), which provides guidance related to revenue recognition based on interpretations and practices followed by the Securities and Exchange Commission. Under the revisions, certain products offered by the Company have revenue producing components that are recognized over multiple delivery points and can consist of up to three separate elements as follows: (1) the sale of the container system, (2) the transportation of the container system and (3) the treatment and disposal (incineration) of the container system. The individual fair value of the transportation and incineration services are determined by the sales price of the service offer by third parties, with and the fair value of the container being the residual value. Revenue for the sale of the container is recognized upon delivery to the customer, which is when the customer takes title and assumes risk of ownership. Transportation revenue is recognized when the customer returns the mailback container system and the container has been received at the Company's treatment facility. Usually, the container system is mailed to the incineration facility using the U.S. Postal Service. Incineration revenue is recognized upon the destruction and certification of destruction having been prepared on the container. Since the transportation element and the incineration elements are undelivered services at the point of initial sale of the container, the revenue is deferred until the services are performed. The current and long-term portions of deferred revenues are determined through regression analysis and historical trends. Furthermore, through regression analysis of historical data, the Company has determined that a certain percentage of all container systems sold may not be returned. Accordingly, a portion of the transportation and incineration elements are recognized at the point of sale.

Shipping and Handling Fees and Costs: The Company records amounts billed to customers for shipping and handling as revenue. Costs incurred by the Company for shipping and handling have been classified as cost of revenue.

Income Taxes: The liability method is used in accounting for deferred income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The realizability of deferred tax assets is evaluated annually and a valuation allowance is provided if the deferred tax assets, more likely than not, will not give rise to future benefits in the Company's tax returns.

Net Loss Per Share: Earnings per share data for all years presented has been computed pursuant to Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share," that requires a presentation of basic earnings per share ("basic EPS") and diluted earnings per share ("diluted EPS"). Basic EPS excludes dilution and is determined by dividing income or loss available to common stockholders by the weighted average number of common shares outstanding during the period adjusted for preferred stock dividends, if any. Diluted EPS reflects the potential dilution that could occur if securities and other contracts to issue common stock were exercised or converted into common stock. Options outstanding during each year have not been included in the calculation of diluted EPS, as they would have an anti-dilutive effect on EPS. There are no differences in basic EPS and diluted EPS for either year presented.

Financial Instruments: The Company considers the fair value of all financial instruments not to be materially different from their carrying values at year-end based on management's estimate of the

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Company's ability to borrow funds under terms and conditions similar to those of the Company's existing debt.

Segment Reporting: SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," requires that a public business enterprise report financial and descriptive information about its operating segments. Generally, financial information is required to be reported on the basis used internally for evaluating segment performance and resource allocation. The Company operates in a single segment, focusing on developing cost effective, logistical and educational solutions for healthcare and non-healthcare institutional markets.

Use of Estimates: The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from these estimates.

Reclassification: Certain reclassifications have been made to the 2001 consolidated financial statements to conform to the presentation for 2002.

Recent Accounting Pronouncements: In July 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 142, "Goodwill and Other Intangible Assets." Under No. SFAS 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives. The amortization provisions of SFAS No. 142 apply to goodwill and

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intangible assets acquired after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, the Company is required to adopt SFAS No. 142 effective July 1, 2002. Management does not believe that this statement will have a material impact on the results of operations or financial conditions of the Company at the time of adoption.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" which covers all legally enforceable obligations associated with the retirement of tangible long-lived assets and provides the accounting and reporting requirements for such obligations. SFAS No. 143 is effective for the Company beginning January 1, 2003. Management does not believe that the adoption of SFAS No. 143 will have a material impact on the results of operations or financial condition of the Company at the time of adoption.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." SFAS No. 144 establishes a single accounting method for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired, and extends the presentation of discontinued operations to include more disposal transactions. SFAS No. 144 also require that an impairment loss be recognized for assets held-for-use when the carrying amount of an asset is not recoverable. The carrying amount of an asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset, excluding interest charges. Estimates of future cash flows used to test

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the recoverability of a long-lived asset must incorporate the entity's own assumptions about its use of the asset and must factor in all available evidence. Management does not believe that the adoption of SFAS No. 144 will have a material impact on the results of operations or financial condition of the Company at the time of adoption.

In April 2002, the FASB issued SFAS No. 145, "Rescission of SFAS No. 4, 44 and 64, Amendment of SFAS Statement No. 13, and Technical Corrections." This statement rescinds the following statement of SFAS 4, "Reporting Gains and Losses from Extinguishment of Debt," and its amendment SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking Fund Requirements," as well as, SFAS No. 44, "Accounting for Intangible Assets of Motor Carriers." The statement also amends SFAS No. 13, "Accounting for Leases", by eliminating an inconsistency between the required accounting for sale- leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. SFAS No. 145 is effective for fiscal years beginning after May 15, 2002. Management does not believe that this statement will have a material impact on the results of operations or financial conditions of the Company at the time of adoption.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities", which nullifies Emerging Issues Task Force ("EITF") Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)." Under the terms of SFAS No. 146, the statement requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred rather than at the date an entity commits to an exit plan. The effective date of the statement is for exit or disposal activities initiated after December 31, 2002, with early application encouraged. Management does not believe that this statement will have a material impact on the results of operations or financial conditions of the Company at the time of adoption.

NOTE 3 PROPERTY AND EQUIPMENT

At June 30, 2002 and 2001, property and equipment consisted of the following:

	Useful Life	June 30,	
		2002	2001
Furniture and fixtures	3 to 5 years	\$ 33,578	\$ 32,819
Equipment	5 years	120,603	114,350
Computers and software	3 to 5 years	263,376	223,183
Leasehold improvements	3 years	119,476	47,224
Automobiles	5 years	32,411	30,758
		<u>569,444</u>	<u>448,334</u>
Less: accumulated depreciation		<u>299,454</u>	<u>226,907</u>

	June 30,	
Net property and equipment	\$ 269,990	\$ 221,427

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NOTE 4 NOTE RECEIVABLE FROM STOCKHOLDER

The Company has a \$320,000 personal, full recourse note receivable with a stockholder and officer of the Company. The note was amended November 2001 to bear interest at 8.0 percent with interest-only installments due on each anniversary date through 2004 and unpaid interest and principal due November 2005. At June 30, 2002 and 2001, approximately \$25,600 and \$0, respectively, of accrued interest was recorded under the note. During the year ended June 30, 2001, interest payments were not made in accordance with the agreement, and outstanding accrued interest at the time was recorded as compensation expense.

NOTE 5 NOTES PAYABLE AND LONG-TERM DEBT

Notes payable and long-term debt consisted of the following:

	June 30,	
	2002	2001
Promissory note to a finance company for the purchase of an automobile, due in monthly installments of principal and interest of \$674, bearing interest at 7.75% through November 2006, and is secured by the automobile.	\$ 30,191	\$
Promissory note to a finance company for the purchase of an automobile, due in monthly installments of principal and interest of \$581, bearing interest at 7.75% through October 2002, and is secured by the automobile.		8,782
The Company finances certain insurance premiums through a note payable with a finance company. The note is due in monthly installments of \$10,847, bearing interest at approximately 6.24% through May 2003.	108,465	123,262
	138,656	132,044
Less: notes payable and current portion of long-term debt	114,429	129,299
	\$ 24,227	\$ 2,745

The following are future maturities on notes payable and long-term debt as of June 30, 2002:

Year Ending June 30,	
2003	\$ 114,429
2004	6,442
2005	6,959
2006	7,518
2007	3,308
	\$ 138,656

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NOTE 6 INCOME TAXES

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The reconciliation of the statutory income tax rate to the Company's effective income tax rate for the years ended June 30, 2002 and 2001 are as follows:

	Year Ended June 30,	
	2002	2001
		(As Restated)
Statutory rate	(34.0)%	(34.0)%
State income taxes, net	(2.9)	(3.6)
Meals and entertainment	2.3	2.2
Change in valuation allowance	32.6	34.2
Other	2.0	1.2
	%	%

At June 30, 2002 and 2001, significant components of net deferred tax assets are approximated as follows:

	June 30,	
	2002	2001
		(As Restated)
Deferred tax assets relating to:		
Accounts receivable reserve	\$ 4,000	\$ 10,000
Deferred revenue	410,000	310,000
Deferred compensation	102,000	80,500
Net operating loss carryforwards and other credits	3,629,000	3,463,000
Total deferred tax assets	4,145,000	3,863,500
Depreciation differences	(14,000)	
Valuation allowance	(4,131,000)	(3,863,500)
Net deferred tax assets	\$	\$

At June 30, 2002, the Company had net operating loss carryforwards for income tax purposes of approximately \$9.8 million, of which approximately \$5.6 million was acquired in an acquisition which occurred in February 1998. The Company's ability to utilize these net operating losses to reduce future taxable income may be limited upon a change of ownership and amounts of separate Company taxable income, as defined by the Internal Revenue Code. The carryforwards will begin to expire in 2009 if not otherwise used. A valuation allowance has been established to fully offset the Company's deferred tax assets due to the Company's history of losses since inception. The valuation allowance relates primarily to the Company's net losses. The Company has not made any income tax payments since inception.

NOTE 7 STOCK TRANSACTIONS

On October 12, 2001, the Company completed a private placement of 1,100,000 unregistered shares of its common stock for net proceeds of \$1,210,000.

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On January 7, 2002, the Company issued 16,667 shares related to certain stock options, for \$16,667.

On August 30, 2000, the Company completed a private placement of 1,000,000 unregistered shares of its common stock for net proceeds of \$1,000,000.

Each of the forgoing transactions were exempt offerings, pursuant to Regulation D, and promulgated under the Securities Act of 1933, as amended.

NOTE 8 STOCK OPTIONS

The Company sponsors a Stock Plan (the "Plan") covering employees, consultants and non-employee directors. The Plan, as amended, provides for the granting of options, either incentive or nonstatutory, to purchase up to 2,000,000 shares of the Company's common stock. Options granted vest over a period of up to four years. Options expire five to seven years after the date of grant.

SFAS No. 123, "Accounting for Stock-Based Compensation," allows companies to adopt one of two methods for accounting for stock options. The Company has elected to continue to account for its employee stock-based compensation plan under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and its related interpretations. While the Company continues to use APB No. 25, proforma information regarding net income and earnings per share is required by SFAS No. 123, which also requires that the information be determined as if the Company had accounted for its stock options under the fair value method prescribed by SFAS 123.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, the model requires the input of highly subjective assumptions including the expected stock price volatility. Because changes in input assumptions can materially affect the fair value estimate, the existing model may not necessarily provide the only measure of fair value for the employee stock options. The Company used the following weighted-average assumptions for options granted during the years ended June 30, 2002 and 2001, as follows: risk-free interest rates of 4.89% and 5.86%; expected annual dividend yield of 0%; a volatility factor of the expected market price of the Company's common stock of approximately 96.89%; and a weighted-average expected life of the options of 5 to 7 years, respectively.

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Had compensation expense for stock based compensation been determined consistent with the provisions of SFAS No. 123, the Company's net loss would have been increased to the following pro forma amounts:

	Year Ended June 30,	
	2002	2001
		(Restated)
Net Loss		
As reported	\$ (819,038)	\$ (761,579)
Proforma	\$ (979,981)	\$ (849,045)
Basic and Diluted EPS		
As reported	\$ (.09)	\$ (.09)
Proforma	\$ (.10)	\$ (.10)

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The Company records the fair value of options issued to non-employee consultants at the fair value of the options issued. Any expense is recognized over the service period or at the date of issuance if the options are fully vested and no further performance obligation exists. During the years ended June 30, 2002 and 2001, expense of \$58,215 and \$137,706 were recorded for option grants to non-employees that were fully vested at the date of the grant and for which no further performance obligation exists. The expense has been recorded in selling, general and administrative expenses in the accompanying consolidated financial statements.

The following summary of activity for the Plan during the years ended June 30, 2002 and 2001 is presented in the table below:

	Options Outstanding	Weighted Average Exercise Price
Balance, June 30, 2000	425,140	\$ 1.61
Granted	725,000	\$.51
Forfeited or Canceled	(70,000)	\$ 1.03
Balance, June 30, 2001	1,080,140	\$.91
Granted	690,000	\$ 1.36
Exercised	(16,667)	\$ 1.00
Forfeited or Canceled	(33,333)	\$.63
Balance, June 30, 2002	1,720,140	\$ 1.09
Exercisable at June 30, 2002	781,815	\$ 1.03

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The weighted average fair values of options granted during the years ended June 30, 2002 and 2001 were \$1.13 and \$0.43, respectively. As of June 30, 2002 and 2001, there were 279,860 and 919,860 options, respectively, available for grant under the Plan.

The following table summarizes information about stock options outstanding as of June 30, 2002:

Options Outstanding			Options Exercisable		
Range of Exercise Price	Outstanding as of June 30, 2002	Weighted Average Remaining Contractual Life (in Years)	Weighted Average Exercise Price	Exercisable as of June 30, 2002	Weighted Average Exercise Price
\$0.50 - \$1.00	767,500	5.63	\$ 0.56	497,506	\$ 0.57
\$1.01 - \$1.50	467,500	5.77	1.22	179,169	1.28
\$1.51 - \$2.00	380,000	6.82	1.53		
\$2.01 - \$2.50	30,000	3.42	2.25	30,000	2.25
\$3.01 - \$3.50	75,140	1.56	3.02	75,140	3.02
	1,720,140		\$ 1.09	781,815	\$ 1.03

NOTE 9 REVENUES AND COST OF REVENUES

The revenues and cost of revenues components for the years ended June 30, 2002 and 2001 (as restated) are as follows:

Year Ended June 30,

	2002		2001	
	Revenue	Cost of Revenue	Revenue	Cost of Revenue
Products	\$ 4,638,700	\$ 2,354,701	\$ 2,820,636	\$ 1,079,661
Incineration Service	505,741	734,680	406,836	390,963
Transportation Service	1,324,381	1,271,691	1,111,183	1,053,114
Consulting Services	44,203		78,783	
	\$ 6,513,025	\$ 4,361,072	\$ 4,417,438	\$ 2,523,738

NOTE 10 COMMITMENTS AND CONTINGENCIES

Litigation: The Company operates in a regulated industry and is subject to routine and/or unannounced regulatory inspections. The Company has received notification from the City of Carthage for various notices of violations which it has received from the Texas Natural Resource Conservation Commission ("TNRCC"). Management believes that the ultimate resolution of these matters will not have any material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

The Company is also a party to various legal actions and claims arising in the normal course of business. While the outcome of these matters cannot be predicted with certainty, management believes

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these matters will not have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

Distributor Agreements: The Company has an agreement with a supplier to be the exclusive domestic distributor of certain of the supplier's medical waste containers. The agreement provides for automatic renewals for two-year periods, unless either party provides notice of termination to the other within 90 days prior to the expiration of the then current term. Exclusivity rights will lapse unless annual non-guaranteed purchase volumes are met.

Sales Representation Agreement: The Company has a sales representation agreement with a sales agency for promotion of the Sharps Disposal by Mail System(tm) exclusively in the veterinary market. The agreement is for a two-year period with automatic two-year renewal periods, unless either party notifies the other 90 days prior to expiration of the current period of its intent to terminate. The agreement further specifies a 15.0 percent commission on net sales as defined in the agreement. Commission expense related to this agreement was \$5,135 and \$5,847 for the years ended June 30, 2002 and 2001, respectively.

Operating Leases: The Company leases office space, an incineration facility and equipment under certain operating lease agreements, which expire at various dates through June 2012. The incineration facility has a \$2,000 per month base rent and a \$0.02 lbs. fee on incineration in excess of 100,000 lbs. The incineration fee has not been included in the table below. Rent expense for the years ended June 30, 2002 and 2001 were \$92,034 and \$58,101, respectively. Future minimum lease payments under non-cancelable operating leases as of June 30, 2002 with subsequent signed leases are as follows:

Year Ending June 30,	
2003	\$ 132,343
2004	144,245
2005	140,279
2006	140,279
2007 and thereafter	187,830
	\$ 744,976

NOTE 11 ADOPTION OF SAB 101 AND RESTATEMENT OF 2001

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During 2002, subsequent to the issuance of the Company's 2001 consolidated financial statements, the Company determined that in its adoption of SAB No. 101, it should have deferred certain revenue on undelivered services versus deferring certain expenses (see revenue recognition policy outline in Note 2 of the consolidated financial statements). Accordingly, the Company changed its methods of accounting for deferred revenues and expenses. As a result, the accompanying consolidated financial statements for the fiscal year ended June 30, 2001 have been restated to properly defer revenue and

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expenses on undelivered services. A summary of the significant effects of the restatement are as follows:

June 30, 2001			
	As Previously Reported	Adjustment	As Restated
Accrued liabilities	\$ 131,948	\$ 4,999	\$ 136,947
Accrued disposal cost	662,632	(662,632)	
Deferred revenue pump return		195,669	195,669
Deferred revenue incineration	85,843	11,347	97,190
Deferred revenue transportation		339,200	339,200
Long-term accrued disposal costs	253,518	(253,518)	
Long-term deferred revenue incineration	40,396	5,340	45,736
Long-term deferred revenue transportation		159,624	159,624
Year Ended June 30, 2001			
	As Previously Reported	Adjustment	As Restated
Sales, net	\$ 4,466,079	\$ (534,260)	\$ 3,931,819
Consulting services and environmental	185,224	300,395	485,619
	4,651,303	(233,865)	4,417,438
Cost of revenue	(2,332,475)	(191,263)	(2,523,738)
Selling, general and administrative	(3,206,643)	292,351	(2,914,292)
Other income (expense)	(73,735)		(73,735)
	(5,612,853)	101,088	(5,511,765)
Loss before cumulative effect of a change in accounting principle	(961,550)	(132,777)	(1,094,327)
Cumulative effect of a change in accounting principle		332,748	332,748
Net loss	\$ (961,550)	\$ 199,971	\$ (761,579)
Basic and diluted (loss) per share before cumulative effect	\$ (0.11)	\$ (.02)	\$ (0.13)
Cumulative effect		.04	0.04
Basic and diluted net income (loss) per share	\$ (0.11)	\$.02	\$ (0.09)

NOTE 12 SUBSEQUENT EVENT

On August 30, 2002, the Company completed an agreement with a financial institution for a \$1.25 million asset based line of credit. The agreement allows the Company to factor, at its election, receivables generated out of its ordinary course of business. The maximum amount available under the line of credit is \$1.0 million (or \$1.25 million of its gross receivable balance) with the agreement extending for one year, at which time either party has the right to terminate the agreement. If no termination is exercised, then it will be extended from year to year. The

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Company may borrow up to 80% of the receivables presented and will incur interest on borrowings at a prime rate of interest plus 2%, plus administrative fees of .25% on gross receivables presented. In addition, the Company granted 9,000 warrants to the financial institution to purchase 9,000 shares of common stock at \$1.65 per share. The warrants expire August 30, 2007.

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