

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

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

For the quarterly period ended June 30, 2003

OR

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

For the transition period from _____ to _____

Commission file number 0-3658

THE FIRST AMERICAN CORPORATION

(Exact name of registrant as specified in its charter)

Incorporated in California

95-1068610

(State or other jurisdiction of incorporation or organization)

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

1 First American Way, Santa Ana, California

92707-5913

(Address of principal executive offices)

(Zip Code)

(714) 800-3000

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Yes No

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APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports to be filed by Section 12,13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. \$1 par value - 77,589,939 as of August 11, 2003

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THE FIRST AMERICAN CORPORATION
AND SUBSIDIARY COMPANIES

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

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

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

See notes to condensed consolidated financial statements.

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THE FIRST AMERICAN CORPORATION
AND SUBSIDIARY COMPANIES

Condensed Consolidated Statements of Income and Comprehensive Income

(in thousands, except per share amounts)

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

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Weighted average number of shares (Note 2):

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

See notes to condensed consolidated financial statements.

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THE FIRST AMERICAN CORPORATION
AND SUBSIDIARY COMPANIES

Condensed Consolidated Statements of Cash Flows
(in thousands)

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

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

Supplemental information:

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

See notes to condensed consolidated financial statements.

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THE FIRST AMERICAN CORPORATION
AND SUBSIDIARY COMPANIES

Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 1 - Basis of Condensed Consolidated Financial Statements

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

Note 2 - Earnings Per Share

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

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

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

Note 4 Business Combinations

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

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

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

For the three months ended June 30, 2003:

<i>(in thousands)</i>	Revenues	Income (loss) before income taxes and minority interests	Depreciation and amortization	Capital expenditures
Financial Services				
Title Insurance and Services	\$ 1,100,929	\$ 140,035	\$ 9,271	\$ 12,908
Specialty Insurance	54,062	8,241	491	596
Trust and Other Services	10,257	3,002	214	16
	<u>1,165,248</u>	<u>151,278</u>	<u>9,976</u>	<u>13,520</u>
Information Technology				
Mortgage Information	160,937	62,653	3,727	5,371
Property Information	105,156	32,390	5,497	1,875
Credit Information	71,781	17,971	2,865	3,257
Screening Information	37,374	3,218	1,785	1,253
	<u>375,248</u>	<u>116,232</u>	<u>13,874</u>	<u>11,756</u>
	<u>1,540,496</u>	<u>267,510</u>	<u>23,850</u>	<u>25,276</u>
Corporate	2,435	(27,757)	2,705	3,692
	<u>\$ 1,542,931</u>	<u>\$ 239,753</u>	<u>\$ 26,555</u>	<u>\$ 28,968</u>

For the three months ended June 30, 2002:

<i>(in thousands)</i>	Revenues	Income (loss) before income taxes and minority interests	Depreciation and amortization	Capital expenditures
Financial Services				
Title Insurance and Services	\$ 808,094	\$ 50,110	\$ 11,341	\$ 16,557
Specialty Insurance	36,119	6,159	653	530
Trust and Other Services	11,650	4,587	272	53
	<u>855,863</u>	<u>60,856</u>	<u>12,266</u>	<u>17,140</u>
Information Technology				
Mortgage Information	109,497	29,551	2,244	2,566
Property Information	62,283	15,021	4,638	2,995
Credit Information	52,122	7,231	3,097	1,969
Screening Information	24,700	1,966	726	756

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	248,602	53,769	10,705	8,286
	1,104,465	114,625	22,971	25,426
Corporate	(12,935)	(34,571)	2,113	896
	\$ 1,091,530	\$ 80,054	\$ 25,084	\$ 26,322

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For the six months ended June 30, 2003:

<i>(in thousands)</i>	Revenues	Income (loss) before income taxes and minority interests	Depreciation and amortization	Capital expenditures
Financial Services				
Title Insurance and Services	\$ 2,045,320	\$ 226,801	\$ 18,583	\$ 22,519
Specialty Insurance	102,646	14,080	913	800
Trust and Other Services	20,108	5,443	443	24
	<u>2,168,074</u>	<u>246,324</u>	<u>19,939</u>	<u>23,343</u>
Information Technology				
Mortgage Information	302,814	108,450	7,522	7,927
Property Information	192,597	55,833	10,979	4,916
Credit Information	149,827	44,578	6,010	4,500
Screening Information	68,992	3,733	3,570	2,757
	<u>714,230</u>	<u>212,594</u>	<u>28,081</u>	<u>20,100</u>
	<u>2,882,304</u>	<u>458,918</u>	<u>48,020</u>	<u>43,443</u>
Corporate	2,602	(55,672)	4,550	7,457
	<u>\$ 2,884,906</u>	<u>\$ 403,246</u>	<u>\$ 52,570</u>	<u>\$ 50,900</u>

For the six months ended June 30, 2002:

<i>(in thousands)</i>	Revenues	Income (loss) before income taxes and minority interests	Depreciation and amortization	Capital expenditures
Financial Services				
Title Insurance and Services	\$ 1,559,235	\$ 89,762	\$ 23,142	\$ 26,001
Specialty Insurance	67,686	11,841	946	1,039
Trust and Other Services	22,786	8,812	563	66
	<u>1,649,707</u>	<u>110,415</u>	<u>24,651</u>	<u>27,106</u>
Information Technology				
Mortgage Information	219,049	61,057	4,380	4,398
Property Information	120,756	26,665	9,012	5,770
Credit Information	108,754	19,884	5,906	5,168
Screening Information	47,454	2,748	1,284	1,675
	<u>496,013</u>	<u>110,354</u>	<u>20,582</u>	<u>17,011</u>
	<u>2,145,720</u>	<u>220,769</u>	<u>45,233</u>	<u>44,117</u>
Corporate	(11,988)	(52,156)	3,999	2,867
	<u>\$ 2,133,732</u>	<u>\$ 168,613</u>	<u>\$ 49,232</u>	<u>\$ 46,984</u>

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The Company's reporting units for purposes of the annual testing for impairment of goodwill are title insurance, home warranty, property and casualty insurance, trust and other services, mortgage origination products and services, mortgage servicing products and services, property information services, conventional credit information, sub-prime credit information, pre-employment and drug screening, tenant screening and motor vehicle reporting.

A reconciliation of the changes in the carrying amount of net goodwill, by operating segment, for the six months ended June 30, 2003, is as follows (in thousands):

	<u>Balance as of December 31, 2002</u>	<u>Acquired (Disposed of) During the Period</u>	<u>Impairment Losses</u>	<u>Balance as of June 30, 2003</u>
Financial Services				
Title Insurance and Services	\$ 149,013	\$ 2,809	\$	\$ 151,822
Specialty Insurances	19,794			19,794
Trust and Other Services				
Information Technology				
Mortgage Information	72,423			72,423
Property Information	124,678	23,009		147,687
Credit Information	86,900	(10,562)		76,338
Screening Information	111,183	66,602		177,785
	<u>\$ 563,991</u>	<u>\$ 81,858</u>	<u>\$</u>	<u>\$ 645,849</u>

The Company had \$41.6 million of intangible assets included in Other assets at June 30, 2003, with definite lives ranging from three to seven years. These assets, comprised primarily of customer lists and noncompete agreements, are being amortized in a manner consistent with periods prior to the adoption of SFAS 142.

Note 7 Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity

In May 2003, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. This statement is effective for interim periods beginning after June 15, 2003 and establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. The implementation of this statement will require the Company to reclassify its Mandatorily redeemable preferred securities of the Company's subsidiary trust whose sole assets are the Company's \$100,000,000 8.5% deferrable interest subordinated notes due 2012 as debt. As a result of the change in classification, the Company's debt-to-total capitalization ratio will be increased. This change will not have any other impact on the Company's financial condition or results of operations.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Certain statements made in this 10-Q, including those relating to anticipated cash requirements, are forward looking. 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; general volatility in the capital markets; changes in applicable government regulations; consolidation among the Company's significant customers and competitors; legal proceedings commenced by the California attorney general and related litigation; 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 Company's Annual Report on Form 10-K for the year ended December 31, 2002, filed with the Securities and Exchange Commission. The forward-looking statements speak only as of the date they are made. The Company does not undertake to update forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements are made.

RESULTS OF OPERATIONS

CRITICAL ACCOUNTING POLICIES

The preparation of the Company's financial statements requires management to make estimates and judgments that affect the reported amounts of certain assets, liabilities, revenues, expenses and related disclosure of contingencies. A summary of the significant critical accounting policies of the Company can be found in Management's Discussion and Analysis in the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

Additionally, pursuant to SFAS 142, the Company is required to perform an annual impairment test for goodwill and other intangible assets. This impairment test is performed utilizing a variety of valuation techniques, all which require management to make estimates and judgments, and include discounted cash flow analysis, market approach valuations and the use of third party valuation advisors. Certain of these valuation techniques are also utilized by the Company in accounting for business combinations, primarily in the determination of the fair value of acquired assets and liabilities.

OVERVIEW

Elevated levels of mortgage applications in the fourth quarter of 2002 produced strong order closings in the first quarter of 2003. This contributed to a strong first quarter in the real estate-related segments of the Company's Financial Services and Information Technology groups. Mortgage applications reached record levels during the second quarter of 2003 and, coupled with operating efficiencies resulting from technology enhancements and related infrastructure cost-cutting initiatives, resulted in record-breaking quarterly results for the three months ended June 30, 2003. Net income for the three months ended June 30, 2003, was \$127.5 million, or \$1.47 per diluted share, compared with net income of \$40.1 million, or \$0.51 per diluted share for the three months ended June 30, 2002. Net income for the six months ended June 30, 2003, was \$215.1 million, or \$2.53 per diluted share, compared with net income of \$84.2 million, or \$1.07 per diluted share for the six months ended June 30, 2002.

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Set forth below is a summary of operating revenues for each of the Company's segments (in thousands, except percentages).

	Three Months Ended June 30				Six Months Ended June 30			
	2003	%	2002	%	2003	%	2002	%
Financial Services:								
Title Insurance:								
Direct operations	\$ 581,965	38	\$ 419,603	39	\$ 1,066,273	38	\$ 806,777	38
Agency operations	508,758	34	378,622	35	957,754	34	735,419	35
	1,090,723	72	798,225	74	2,024,027	72	1,542,196	73
Specialty Insurance	50,889	3	33,580	3	97,033	3	62,892	3
Trust and Other Services	10,202	1	11,538	1	20,107	1	22,694	1
	1,151,814	76	843,343	78	2,141,167	76	1,627,782	77
Information Technology:								
Mortgage Information	157,256	10	108,530	10	296,364	11	216,660	10
Property Information	98,022	6	57,453	5	180,302	6	112,563	6
Credit Information	69,116	5	50,548	5	131,644	5	103,547	5
Screening Information	37,346	3	24,707	2	68,940	2	47,369	2
	361,740	24	241,238	22	677,250	24	480,139	23
Total Operating Revenues	\$ 1,513,554	100	\$ 1,084,581	100	\$ 2,818,417	100	\$ 2,107,921	100

Financial Services. Operating revenues from direct title operations increased 38.7% and 32.2% for the three and six months ended June 30, 2003, respectively, when compared with the same periods of the prior year. These increases were primarily due to an increase in the number of title orders closed by the Company's direct operations. The Company's direct operations closed 533,100 and 988,800 title orders during the current three and six month periods, respectively, increases of 39.7% and 27.7% when compared with 381,500 and 774,500 closed during the same periods of the prior year. These increases were primarily due to the factors mentioned above in the Overview section. Operating revenues from agency operations increased 34.4% and 30.2% for the three and six months ended June 30, 2003, respectively, when compared with the same periods of the prior year. These fluctuations were primarily due to the same factors affecting direct title operations as well as the timing of the reporting of agency remittances. Specialty insurance operating revenues increased 51.5% and 54.3% for the three and six months ended June 30, 2003, respectively, when compared with the same periods of the prior year. These increases were primarily due to geographic expansion at the Company's home warranty division and market share growth at the property and casualty insurance division. Trust and other services operating revenues decreased 11.6% and 11.4% for the three and six months ended June 30, 2003, respectively, when compared with the same periods of the prior year. These decreases were primarily attributable to a reduction in fees earned due to the declining values of the investment portfolios managed by this segment.

Information Technology. Mortgage information operating revenues increased 44.9% and 36.8% for the three and six months ended June 30, 2003, respectively, when compared with the same periods of the prior year. These increases were primarily due to market share gains and to the increase in real estate activity. Property information operating revenues increased 70.6% and 60.2% for the three and six months ended June 30, 2003, respectively, when compared with the same periods of the prior year. These increases were primarily attributable to market share gains, the increase in real estate activity, and \$17.1 million and \$29.3 million of operating revenues contributed by new acquisitions for the three and six months ended June 30, 2003, respectively. Credit information operating revenues increased 36.7% and 27.1% for the three and six months ended June 30, 2003, respectively, when compared with the same periods of the prior year. These increases were primarily due to an increase in the demand for mortgage credit information, as well as \$2.7 million and \$5.3 million of operating revenues contributed by new acquisitions for the three and six months ended June 30, 2003, respectively. Screening information operating revenues increased 51.2% and 45.5% for the three and six months ended June 30, 2003, respectively, when compared with the same periods of the prior year. These increases were primarily attributable to \$10.5 million and \$17.3 million of operating revenues contributed by new acquisitions for the respective periods.

Table of Contents**INVESTMENT AND OTHER INCOME**

Investment and other income totaled \$27.8 million and \$52.4 million for the three and six months ended June 30, 2003, respectively, representing increases of \$8.2 million, or 42.0%, and \$14.0 million, or 36.4%, when compared with the same periods of the prior year. These increases resulted primarily from an increase in earnings from unconsolidated affiliates, which are accounted for under the equity method of accounting.

NET REALIZED INVESTMENT GAINS

Net realized investment gains totaled \$1.6 million and \$14.1 million for the three and six months ended June 30, 2003, respectively, compared with losses totaling \$12.6 million for both the three and six months ended June 30, 2002. The current six-month period included a \$13.1 million realized investment gain associated with the merger of the Company's Credit Online business with DealerTrack Holdings, Inc. Included in the prior year periods were \$13.6 million of investment losses resulting from the write-down of WorldCom bonds. The majority of the write-down related to the Company's Capital Management Division, which manages funds for the benefit of the Company's 1031 tax-deferred exchange customers.

TOTAL OPERATING EXPENSES

Financial Services. Salaries and other personnel costs for the Financial Services group, which primarily reflects the title insurance segment, were \$319.5 million and \$614.2 million for the three and six months ended June 30, 2003, respectively, increases of \$48.2 million, or 17.8%, and \$87.7 million, or 16.7%, when compared with the same periods of the prior year. These increases were primarily attributable to incremental labor costs incurred to service the increase in business volume, particularly at the title insurance operations, where the Company experienced a 51.7% and 38.7% increase in total order volume for the three and six months ended June 30, 2003, when compared with the same periods of the prior year. Offsetting in part the increase in personnel costs due to the increase in business volume were operational efficiencies in the title insurance segment which resulted from the Company's FAST technology and related cost-cutting initiatives. Salaries and other personnel costs as a percentage of operating revenues for the Financial Services group were 27.7% and 28.7% for the three and six months ended June 30, 2003, respectively, and 32.2% and 32.3% for the respective periods of the prior year.

Agents retained \$408.8 million and \$774.5 million of title premiums generated by agency operations for the three and six months ended June 30, 2003, respectively, which compares with \$308.8 million and \$593.1 million for the same periods of the prior year. The percentage of title premiums retained by agents ranged from 80.3% to 81.6% due to regional variances (i.e., the agency share varies from region to region and thus the geographical mix of agency revenues causes this variation).

Other operating expenses for the Financial Services group, which primarily reflect the title insurance segment, were \$187.8 million and \$349.6 million for the three and six months ended June 30, 2003, respectively, increases of \$45.5 million, or 32.0%, and \$67.8 million, or 24.1%, when compared with the same periods of the prior year. These increases were primarily the result of incremental costs incurred to service the increase in business volume. Other operating expenses as a percentage of operating revenues for the Financial Services group were 16.3% for both the three and six months ended June 30, 2003, and 16.9% and 17.3% for the respective periods of the prior year.

The provision for policy losses and other claims primarily represents title insurance claims, home warranty claims and property and casualty insurance claims. For the title insurance segment, the claims provision as a percentage of title insurance operating revenues was 4.1% for the current six-month period and 4.0% for the same period of the prior year. This increase in rate reflects marginal adverse claims development experience for certain prior policy years. For the home warranty business, the claims provision as a percentage of home warranty operating revenues was 45.8% for the current six-month period and 50.2% for the same period of the prior year. This decrease in rate was primarily due to a reduction in the average cost per claim, which was primarily attributable to the elimination of higher-cost vendor contractors that were servicing claims in new geographic areas. For the property and casualty business, the claims provision as a percentage of property and casualty insurance operating revenues was 73.7% for the current six-month period and 60.1% for the same period of the prior year. This increase in rate was due to high claims activity experienced primarily during the first quarter of 2003 resulting from insured property damaged in Southern California as a result of extraordinarily high wind conditions.

Premium taxes, which relate to the title insurance and specialty insurance segments, were \$22.5 million and \$15.6 million for the six months ended June 30, 2003 and 2002, respectively. Premium taxes as a percentage of title insurance and specialty insurance operating revenues were 1.1% for the current six-month period and 1.0% for the same period of the prior year. The slight variation in rate was primarily due to the composition and geographical mix of the operating revenues (i.e., tax rates and bases vary from state to state).

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Information Technology. Information technology personnel and other operating expenses were \$239.7 million and \$464.3 million for the three and six months ended June 30, 2003, respectively, increases of \$58.3 million, or 32.1%, and \$104.9 million, or 29.2%, when compared with the same periods of the prior year. Excluding acquisition activity, the increases were \$38.4 million, or 21.2% for the current three-month period, and \$72.5 million, or 20.2% for the current six-month period. These increases were primarily due to costs incurred to service the increase in business volume, costs incurred to integrate new acquisitions and increased technology costs. Personnel and other operating expenses as a percentage of operating revenues for the information technology group were 66.3% and 68.6% for the three and six months ended June 30, 2003, respectively, down from 75.2% and 74.9% for the same periods of the prior year.

INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS

Set forth below is a summary of income before income taxes and minority interests for each of the Company's segments (in thousands, except percentages).

	Three Months Ended June 30				Six Months Ended June 30			
	2003	%	2002	%	2003	%	2002	%
Financial Services								
Title Insurance and Services	\$ 140,035	53	\$ 50,110	44	\$ 226,801	50	\$ 89,762	41
Speciality Insurance	8,241	3	6,159	5	14,080	3	11,841	5
Trust and Other Services	3,002	1	4,587	4	5,443	1	8,812	4
	<u>151,278</u>	<u>57</u>	<u>60,856</u>	<u>53</u>	<u>246,324</u>	<u>54</u>	<u>110,415</u>	<u>50</u>
Information Technology								
Mortgage Information	62,653	23	29,551	26	108,450	23	61,057	28
Property Information	32,390	12	15,021	13	55,833	12	26,665	12
Credit Information	17,971	7	7,231	6	44,578	10	19,884	9
Screening Information	3,218	1	1,966	2	3,733	1	2,748	1
	<u>116,232</u>	<u>43</u>	<u>53,769</u>	<u>47</u>	<u>212,594</u>	<u>46</u>	<u>110,354</u>	<u>50</u>
Total before corporate	<u>267,510</u>	<u>100</u>	<u>114,625</u>	<u>100</u>	<u>458,918</u>	<u>100</u>	<u>220,769</u>	<u>100</u>
Corporate	<u>(27,757)</u>		<u>(34,571)</u>		<u>(55,672)</u>		<u>(52,156)</u>	
Total	<u>\$ 239,753</u>		<u>\$ 80,054</u>		<u>\$ 403,246</u>		<u>\$ 168,613</u>	

In general, the title insurance business is a lower profit margin business when compared to the Company's other segments. The lower profit margins reflect the high cost of producing title evidence whereas the corresponding revenues are subject to regulatory and competitive pricing restraints. Due to this relatively high proportion of fixed costs, title insurance profit margins generally improve as closed order volumes increase. In addition, title insurance profit margins are affected by the composition (residential or commercial) and type (resale, refinancing or new construction) of real estate activity. Profit margins from resale and new construction transactions are generally higher than from refinancing transactions because in many states there are premium discounts on, and cancellation rates are higher for, refinance transactions. Title insurance profit margins are also affected by the percentage of operating revenues generated by agency operations. Profit margins from direct operations are generally higher than from agency operations due primarily to the large portion of the premium that is retained by the agent. Most of the businesses included in the Information Technology group are database intensive, with a relatively high proportion of fixed costs. As such, profit margins generally improve as revenues increase. Revenues for the mortgage and property information segments, like the title insurance segment, are primarily dependent on the level of real estate activity and the cost and availability of mortgage funds. Revenues for the credit information segment are in part impacted by real estate activity, but also by the consumer and automobile sectors. Included in corporate expenses for the three and six months ended June 30, 2002, were the previously mentioned \$13.6 million in investment losses resulting

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from the write down of WorldCom bonds. Excluding these investment losses, corporate expenses increased \$6.8 million and \$17.1 million for the three and six months ended June 30, 2003, respectively, when compared with the same periods of the prior year. These increases were primarily due to increased technology costs and higher general costs associated with the support effort needed to service the Company's expanded national and international operations.

INCOME TAXES

The effective income tax rate (income tax expense as a percentage of pretax income after minority interest expense) was 39.3% for the six months ended June 30, 2003, and 40.5% for the same period of the prior year. The decrease in effective rate was primarily attributable to changes in the ratio of permanent differences to pretax profits. A large portion of the Company's minority interest expense is attributable to a limited liability company subsidiary which, for tax purposes, is treated as a partnership. Accordingly, no income taxes have been provided for that portion of the minority interest expense.

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MINORITY INTERESTS

Minority interest expense was \$29.2 million and \$49.1 million for the three and six months ended June 30, 2003, respectively, increases of \$15.5 million and \$22.0 million when compared with the same periods of the prior year. These increases were primarily attributable to the increase in operating results of the Company's joint venture with Experian.

NET INCOME

Net income for the three and six months ended June 30, 2003, was \$127.5 million, or \$1.47 per diluted share, and \$215.1 million, or \$2.53 per diluted share, respectively. Net income for the three and six months ended June 30, 2002, was \$40.1 million, or \$0.51 per diluted share, and \$84.2 million, or \$1.07 per diluted share, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Total cash and cash equivalents increased \$153.0 million and \$39.9 million for the six months ended June 30, 2003 and 2002, respectively. The increase for the current year period as well as for the prior year period was primarily due to cash generated by operating activities, offset in part by capital expenditures, purchases of debt and equity securities, the cash effect of company acquisitions, the repayment of debt, distributions to minority shareholders and cash dividends.

Notes and contracts payable (excluding the Company's trust preferred securities) as a percentage of total capitalization decreased to 17.8% at June 30, 2003 from 20.7% at December 31, 2002. This decrease was primarily due to net income for the six months ended June 30, 2003 and debt repayments. In May 2003, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 150,

Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. This statement is effective for interim periods beginning after June 15, 2003 and establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. The implementation of this statement will require the Company to reclassify its mandatorily redeemable preferred securities of the Company's subsidiary trust whose sole assets are the Company's \$100,000,000 8.5% deferrable interest subordinated notes due 2012 as debt. As a result of the change in classification, the Company's debt-to-total capitalization ratio would have been 22.0% and 25.6% at June 30, 2003 and December 31, 2002, respectively.

Management believes that all of its anticipated operating cash requirements for the immediate future will be met from internally generated funds.

Item 3 Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in the Company's risk since filing its Form 10K for the year ended December 31, 2002.

Item 4 Controls and Procedures

Based upon an evaluation by the Company's President and Chief Financial Officer within 90 days prior to the filing date of the Quarterly report on Form 10-Q, they have concluded that the Company's disclosure controls and procedures as defined in Rule 13a-14(c) under the Securities and Exchange Act of 1934, as amended, are effective for gathering, analyzing and disclosing the information the Company is required to disclose in its reports filed under such Act. Subsequent to the date of the evaluation, there were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls.

Table of ContentsPART II: Other InformationItem 4. Submission of Matters to a Vote of Security Holders.

- (a) The annual meeting of shareholders (the Meeting) of The First American Corporation (the Company) was held on Thursday, May 8, 2003.
- (b) The names of the persons who were nominated to serve as directors of the Company for the ensuing year are listed below, together with a tabulation of the results of the voting with respect to each nominee. Each of the persons named was nominated by management of the Company and all such nominees were elected.

Name of Nominee	Votes For	Votes Withheld
Gary J. Beban	61,616,998	5,490,800
J. David Chatham	61,440,670	5,667,128
William G. Davis	61,579,509	5,528,289
James L. Doti	61,347,384	5,760,414
Lewis W. Douglas, Jr.	61,535,536	5,572,262
Paul B. Fay, Jr.	61,446,497	5,661,301
D. P. Kennedy	62,410,095	4,697,703
Parker S. Kennedy	62,453,608	4,654,190
Frank O Bryan	62,194,502	4,913,296
Roslyn B. Payne	62,456,794	4,651,004
D. Van Skilling	66,545,637	562,161
Herbert B. Tasker	53,673,315	13,434,483
Virginia Ueberroth	53,758,306	13,349,492

No other matters were voted upon at the Meeting or during the quarter for which this report is filed.

Item 6. Exhibits and Reports on Form 8-K.

- (a) Exhibits
- (31)(a) Certification by Chief Executive Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
- (31)(b) Certification by Chief Financial Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
- (32)(a) Certification by Chief Executive Officer Pursuant to 18 U.S.C. Section 1350.
- (32)(b) Certification by Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.
- (b) Reports on Form 8-K

During the quarterly period covered by this report, the Company did not file any reports on Form 8-K. Subsequent to such quarterly period, the Company furnished a report on Form 8-K dated July 23, 2003 (reporting on second quarter 2003 earnings).

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE FIRST AMERICAN CORPORATION

(Registrant)

/s/ THOMAS A. KLEMENS

**Thomas A. Klemens
Executive Vice President
Chief Financial Officer**

/s/ MAX O. VALDES

**Max O. Valdes
Vice President
Chief Accounting Officer**

Date: August 14, 2003

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EXHIBIT INDEX

Exhibit No.	Description	Sequentially Numbered Page
(31)(a)	Certification by Chief Executive Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934	
(31)(b)	Certification by Chief Financial Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934	
(32)(a)	Certification by Chief Executive Officer Pursuant to 18 U.S.C. Section 1350.	
(32)(b)	Certification by Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.	

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Explanatory Note:

This amendment no. 1 to the Company's quarterly report on Form 10-Q for the quarterly period ended June 30, 2003 is being filed for the purpose of amending the comprehensive loss and accrued liabilities on the Company's June 30, 2003 balance sheet. The impact of the change was to reduce equity by \$3.4 million and increase accrued liabilities by a corresponding amount and relates to the comprehensive loss related to the Company's pension plan. There is no further impact on the Company's financial condition or results of operations.