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First American Financial Corp  
Form 10-Q  
October 22, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2015

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-34580

FIRST AMERICAN FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

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Incorporated in Delaware (State or other jurisdiction of incorporation or organization)	26-1911571 (I.R.S. Employer Identification No.)
1 First American Way, Santa Ana, California (Address of principal executive offices)	92707-5913 (Zip Code)

(714) 250-3000

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

Large accelerated filer  Accelerated filer  1

Non-accelerated filer  1 (Do not check if a smaller reporting company) Smaller reporting company  1

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY

PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes  No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

On October 19, 2015, there were 108,743,996 shares of common stock outstanding.

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FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

INFORMATION INCLUDED IN REPORT

PART I: FINANCIAL INFORMATION

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Items 2 through 5 of Part II have been omitted because they are not applicable with respect to the current reporting period.



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

- THE EFFECT OF PENDING ACCOUNTING PRONOUNCEMENTS ON THE COMPANY'S FINANCIAL STATEMENTS;
- EXPECTED PENSION PLAN AND SUPPLEMENTAL BENEFIT PLAN CONTRIBUTIONS AND RETURNS;
- THE EFFECT OF LAWSUITS, REGULATORY EXAMINATIONS AND INVESTIGATIONS AND OTHER LEGAL PROCEEDINGS ON THE COMPANY'S FINANCIAL CONDITION, RESULTS OF OPERATIONS OR CASH FLOWS;
- FUTURE PAYMENT OF DIVIDENDS;
- THE SUFFICIENCY OF THE COMPANY'S RESOURCES TO SATISFY OPERATIONAL CASH REQUIREMENTS;
- THE EFFECTS OF THE CONSUMER FINANCIAL PROTECTION BUREAU'S INTEGRATED DISCLOSURE RULES;
- THE LIKELIHOOD OF CHANGES IN EXPECTED ULTIMATE LOSSES AND CORRESPONDING LOSS RATES AND CLAIM RESERVES;
- THE LIKELIHOOD AND EFFECTS OF CYBER ATTACKS AND SIMILAR INCIDENTS;
- FUTURE ACQUISITIONS; AND
- CANADIAN EXCISE TAXES FOR SERVICES PROVIDED TO LENDERS,

ARE FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED, AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. THESE FORWARD-LOOKING STATEMENTS MAY CONTAIN THE WORDS "BELIEVE," "ANTICIPATE," "EXPECT," "PLAN," "PREDICT," "ESTIMATE," "PROJECT," "WILL BE," "WILL CONTAIN," "WILL LIKELY RESULT," OR OTHER SIMILAR WORDS AND PHRASES.

RISKS AND UNCERTAINTIES EXIST THAT MAY CAUSE RESULTS TO DIFFER MATERIALLY FROM THOSE SET FORTH IN THESE FORWARD-LOOKING STATEMENTS. FACTORS THAT COULD CAUSE THE ANTICIPATED RESULTS TO DIFFER FROM THOSE DESCRIBED IN THE FORWARD-LOOKING STATEMENTS INCLUDE:

- INTEREST RATE FLUCTUATIONS;
- CHANGES IN THE PERFORMANCE OF THE REAL ESTATE MARKETS;
- VOLATILITY IN THE CAPITAL MARKETS;
- UNFAVORABLE ECONOMIC CONDITIONS;
- IMPAIRMENTS IN THE COMPANY'S GOODWILL OR OTHER INTANGIBLE ASSETS;
- FAILURES AT FINANCIAL INSTITUTIONS WHERE THE COMPANY DEPOSITS FUNDS;
- CHANGES IN APPLICABLE GOVERNMENT REGULATIONS;
- HEIGHTENED SCRUTINY BY LEGISLATORS AND REGULATORS OF THE COMPANY'S TITLE INSURANCE AND SERVICES SEGMENT AND CERTAIN OTHER OF THE COMPANY'S BUSINESSES;
- THE CONSUMER FINANCIAL PROTECTION BUREAU'S EXERCISE OF ITS BROAD RULEMAKING AND SUPERVISORY POWERS;
- THE EFFECTS OF AND COMPLIANCE WITH THE CONSUMER FINANCIAL PROTECTION BUREAU'S INTEGRATED DISCLOSURE RULES;
- REGULATION OF TITLE INSURANCE RATES;
- REFORM OF GOVERNMENT-SPONSORED MORTGAGE ENTERPRISES;
- LIMITATIONS ON ACCESS TO PUBLIC RECORDS AND OTHER DATA;
- CHANGES IN RELATIONSHIPS WITH LARGE MORTGAGE LENDERS AND GOVERNMENT-SPONSORED ENTERPRISES;

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CHANGES IN MEASURES OF THE STRENGTH OF THE COMPANY'S TITLE INSURANCE UNDERWRITERS, INCLUDING RATINGS AND STATUTORY CAPITAL AND SURPLUS;  
LOSSES IN THE COMPANY'S INVESTMENT PORTFOLIO;  
EXPENSES OF AND FUNDING OBLIGATIONS TO THE PENSION PLAN;  
MATERIAL VARIANCE BETWEEN ACTUAL AND EXPECTED CLAIMS EXPERIENCE;  
DEFALCATIONS, INCREASED CLAIMS OR OTHER COSTS AND EXPENSES ATTRIBUTABLE TO THE COMPANY'S USE OF TITLE AGENTS;  
ANY INADEQUACY IN THE COMPANY'S RISK MITIGATION EFFORTS;

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SYSTEMS DAMAGE, FAILURES, INTERRUPTIONS AND INTRUSIONS, WIRE TRANSFER ERRORS OR UNAUTHORIZED DATA DISCLOSURES;

INABILITY TO REALIZE THE BENEFITS OF THE COMPANY'S OFFSHORE STRATEGY;

INABILITY OF THE COMPANY'S SUBSIDIARIES TO PAY DIVIDENDS OR REPAY FUNDS;

INABILITY TO REALIZE THE BENEFITS OF, AND CHALLENGES ARISING FROM, THE COMPANY'S ACQUISITION STRATEGY; AND

OTHER FACTORS DESCRIBED IN PART II, ITEM 1A OF THIS QUARTERLY REPORT ON FORM 10-Q. THE FORWARD-LOOKING STATEMENTS SPEAK ONLY AS OF THE DATE THEY ARE MADE. THE COMPANY DOES NOT UNDERTAKE TO UPDATE FORWARD-LOOKING STATEMENTS TO REFLECT CIRCUMSTANCES OR EVENTS THAT OCCUR AFTER THE DATE THE FORWARD-LOOKING STATEMENTS ARE MADE.



## PART I: FINANCIAL INFORMATION

## Item 1. Financial Statements.

## FIRST AMERICAN FINANCIAL CORPORATION

## AND SUBSIDIARY COMPANIES

## Condensed Consolidated Balance Sheets

(in thousands, except par values)

(unaudited)

	September 30,	December 31,
	2015	2014
<b>Assets</b>		
Cash and cash equivalents	\$894,430	\$ 1,190,080
Accounts and accrued income receivable, net	281,985	276,610
Income taxes receivable	903	5,547
<b>Investments:</b>		
Deposits with banks	16,388	21,445
Debt securities, includes pledged securities of \$122,008 and \$120,742	4,274,116	3,450,252
Equity securities	312,035	402,412
Other investments	163,512	159,783
	4,766,051	4,033,892
Property and equipment, net	398,952	395,287
Title plants and other indexes	551,232	530,589
Deferred income taxes	19,712	19,712
Goodwill	968,550	959,945
Other intangible assets, net	50,887	55,812
Other assets	188,446	198,626
	\$8,121,148	\$ 7,666,100
<b>Liabilities and Equity</b>		
Deposits	\$2,621,209	\$ 2,332,714
Accounts payable and accrued liabilities	894,913	854,105
Deferred revenue	214,406	202,764
Reserve for known and incurred but not reported claims	971,453	1,011,780
Income taxes payable	49,643	6,228
Deferred income taxes	91,482	95,128
Notes and contracts payable	584,952	587,337
	5,428,058	5,090,056
<b>Commitments and contingencies (Note 13)</b>		
<b>Stockholders' equity:</b>		
Preferred stock, \$0.00001 par value; Authorized—500 shares;		
Outstanding—none	—	—

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Common stock, \$0.00001 par value; Authorized—300,000 shares; Outstanding—108,744 shares and 107,541 shares	1	1
Additional paid-in capital	2,138,623	2,109,712
Retained earnings	785,859	662,310
Accumulated other comprehensive loss	(234,413 )	(199,106 )
Total stockholders' equity	2,690,070	2,572,917
Noncontrolling interests	3,020	3,127
Total equity	2,693,090	2,576,044
	\$8,121,148	\$ 7,666,100

See notes to condensed consolidated financial statements.

## FIRST AMERICAN FINANCIAL CORPORATION

## AND SUBSIDIARY COMPANIES

## Condensed Consolidated Statements of Income

(in thousands, except per share amounts)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
<b>Revenues</b>				
Direct premiums and escrow fees	\$625,652	\$564,396	\$1,772,581	\$1,529,391
Agent premiums	576,450	496,887	1,495,879	1,341,020
Information and other	162,671	161,227	479,849	464,572
Net investment income	22,272	22,828	70,694	64,254
Net realized investment (losses) gains	(3,130 )	14,392	(215 )	23,261
	1,383,915	1,259,730	3,818,788	3,422,498
<b>Expenses</b>				
Personnel costs	400,884	365,304	1,155,500	1,045,955
Premiums retained by agents	462,087	395,324	1,199,375	1,070,260
Other operating expenses	220,623	219,536	652,290	622,024
Provision for policy losses and other claims	139,126	119,390	363,550	337,739
Depreciation and amortization	21,072	24,127	63,389	63,879
Premium taxes	17,439	15,427	46,920	41,971
Interest	7,288	4,670	21,798	13,007
	1,268,519	1,143,778	3,502,822	3,194,835
Income before income taxes	115,396	115,952	315,966	227,663
Income taxes	39,637	35,015	108,831	74,186
Net income	75,759	80,937	207,135	153,477
Less: Net income attributable to noncontrolling interests	217	232	615	454
Net income attributable to the Company	\$75,542	\$80,705	\$206,520	\$153,023
Net income per share attributable to the Company's				
stockholders (Note 8):				
Basic	\$0.69	\$0.75	\$1.91	\$1.43
Diluted	\$0.69	\$0.74	\$1.88	\$1.41
Cash dividends declared per share	\$0.25	\$0.24	\$0.75	\$0.60
Weighted-average common shares outstanding (Note 8):				
Basic	108,647	107,136	108,284	106,727
Diluted	110,004	108,863	109,706	108,546

See notes to condensed consolidated financial statements.

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## FIRST AMERICAN FINANCIAL CORPORATION

## AND SUBSIDIARY COMPANIES

## Condensed Consolidated Statements of Comprehensive Income

(in thousands)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	\$75,759	\$80,937	\$207,135	\$153,477
Other comprehensive income (loss), net of tax:				
Unrealized (losses) gains on securities	(10,942)	(14,735)	(19,374)	11,504
Foreign currency translation adjustment	(15,416)	(12,557)	(29,210)	(6,985)
Pension benefit adjustment	4,058	907	13,260	8,690
Other comprehensive (loss) income, net of tax	(22,300)	(26,385)	(35,324)	13,209
Comprehensive income	53,459	54,552	171,811	166,686
Less: Comprehensive income attributable to noncontrolling interests	206	235	598	464
Comprehensive income attributable to the Company	\$53,253	\$54,317	\$171,213	\$166,222

See notes to condensed consolidated financial statements.

## FIRST AMERICAN FINANCIAL CORPORATION

## AND SUBSIDIARY COMPANIES

## Condensed Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

	Nine Months Ended September 30,	
	2015	2014
Cash flows from operating activities:		
Net income	\$207,135	\$153,477
Adjustments to reconcile net income to cash provided by operating activities:		
Provision for policy losses and other claims	363,550	337,739
Depreciation and amortization	63,389	63,879
Amortization of premiums and accretion of discounts on debt securities, net	21,702	17,984
Excess tax benefits from share-based compensation	(8,496 )	(6,050 )
Net realized investment losses (gains)	215	(23,261 )
Share-based compensation	20,261	15,962
Equity in earnings of affiliates, net	(7,710 )	(1,068 )
Dividends from equity method investments	7,559	4,018
Changes in assets and liabilities excluding effects of acquisitions and noncash transactions:		
Claims paid, including assets acquired, net of recoveries	(364,255 )	(353,048 )
Net change in income tax accounts	56,784	55,372
Increase in accounts and accrued income receivable	(32,194 )	(23,191 )
Decrease in accounts payable and accrued liabilities	(7,074 )	(74,407 )
Increase in deferred revenue	12,049	6,780
Other, net	19,282	(8,015 )
Cash provided by operating activities	352,197	166,171
Cash flows from investing activities:		
Net cash effect of acquisitions/dispositions	(26,662 )	(162,910 )
Net decrease in deposits with banks	2,471	2,888
Purchases of debt and equity securities	(1,726,939)	(1,203,474)
Proceeds from sales of debt and equity securities	443,276	627,174
Proceeds from maturities of debt securities	531,440	276,812
Net change in other investments	470	5,093
Net paydowns on loans receivable	—	20,002
Capital expenditures	(91,964 )	(63,923 )
Proceeds from sales of property and equipment	17,057	11,675
Cash used for investing activities	(850,851 )	(486,663 )
Cash flows from financing activities:		
Net change in deposits	288,495	606,373
Net proceeds from issuance of debt	—	300,503

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Repayment of debt	(4,087 )	(161,878 )
Net activity related to noncontrolling interests	(705 )	(658 )
Excess tax benefits from share-based compensation	8,496	6,050
Net (payments) proceeds in connection with share-based compensation plans	(1,534 )	885
Cash dividends	(81,283 )	(64,159 )
Cash provided by financing activities	209,382	687,116
Effect of exchange rate changes on cash	(6,378 )	2,412
Net (decrease) increase in cash and cash equivalents	(295,650 )	369,036
Cash and cash equivalents—Beginning of period	1,190,080	834,837
Cash and cash equivalents—End of period	\$894,430	\$1,203,873
Supplemental information:		
Cash paid during the period for:		
Interest	\$21,166	\$15,701
Premium taxes	\$45,683	\$47,729
Income taxes, less refunds of \$711 and \$9,843	\$52,069	\$20,510
See notes to condensed consolidated financial statements.		

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

Condensed Consolidated Statement of Stockholders' Equity

(in thousands)

(unaudited)

	First American Financial Corporation Stockholders							
	Shares	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Total stockholders' equity	Noncontrolling interests	Total
Balance at December 31, 2014	107,541	\$ 1	\$2,109,712	\$662,310	\$(199,106 )	\$2,572,917	\$3,127	\$2,576,044
Net income for nine months ended September 30, 2015	—	—	—	206,520	—	206,520	615	207,135
Dividends on common shares	—	—	—	(81,283 )	—	(81,283 )	—	(81,283 )
Shares issued in connection with share-based compensation plans	1,203	—	8,650	(1,688 )	—	6,962	—	6,962
Share-based compensation	—	—	20,261	—	—	20,261	—	20,261
Net activity related to noncontrolling interests	—	—	—	—	—	—	(705 )	(705 )
Other comprehensive loss (Note 12)	—	—	—	—	(35,307 )	—	—	(35,307 )