

FIRST AMERICAN FINANCIAL CORP
Form 424B3
January 04, 2002

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PROSPECTUS

3,000,000 COMMON SHARES
THE FIRST AMERICAN CORPORATION

Acquisition Consideration

- o This prospectus covers up to 3,000,000 of our common shares.
- o We may offer these shares from time to time as full or partial consideration for our acquisition of the assets or ownership interests of businesses which primarily provide financial and information services.
- o We will negotiate the terms of each acquisition transaction with the owners of the assets or ownership interests being acquired at the time the particular acquisition transaction is undertaken.

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Our Business

- o We are a lead business info products and

Share Price

Listing

- o We will value the shares issued in a particular acquisition transaction at a price reasonably related to the market value of the shares at one of the following times:
 - o When the terms of the particular acquisition transaction are agreed upon.
 - o When the particular acquisition transaction closes.
 - o During the period or periods prior to the delivery of the shares.

- o The shares of prospectus wi trading on th Exchange.
- o The trading s shares on the Exchange if "
- o On December 3 closing price the New York was \$18.74

An Investment in Our Company Entails Risk

- o Before making an investment in our shares, you should consider carefully the "Risk Factors" set forth beginning on page 1.

Neither the Securities and Exchange Commission nor any state securities commission approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is January 3, 2002.

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Where You Can Find More Information; Incorporation by Reference.....(i)

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WHERE YOU CAN FIND MORE INFORMATION; INCORPORATION BY REFERENCE

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission. You may read and copy, upon payment of a fee set by the SEC, any document that we file with the SEC at any of its public reference rooms in the following locations:

450 Fifth Street, N.W.
Washington, D.C. 20549

Citicorp Center
500 West Madison Street
14th Floor, Suite 1400
Chicago, Illinois 60661

You may also call the SEC at 1-800-432-0330 for more information on the public reference rooms. Our filings are also available to the public on the internet through the SEC's EDGAR database. You may access the EDGAR database at the SEC's web site at <http://www.sec.gov>.

The SEC allows us to "incorporate by reference" information into this prospectus. This means that we can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is deemed to be part of this prospectus, except for any information superseded by information in this prospectus. This prospectus incorporates by reference the documents set forth below that we have previously filed

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with the SEC. These documents contain important business and financial information about our company, including information concerning its financial performance:

- o our annual report on form 10-K for the fiscal year ended December 31, 2000;
- o our quarterly reports on form 10-Q for the quarters ended March 31, 2001, June 30, 2001 and September 30, 2001, as amended;
- o our current reports on form 8-K filed January 31, 2001, February 21, 2001, April 11, 2001, April 16, 2001, May 7, 2001, May 8, 2001, May 10, 2001, May 17, 2001, August 1, 2001 and October 25, 2001;
- o the description of our common shares, \$1.00 par value, contained in

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our registration statement on form 8-A, dated November 19, 1993, which registers the shares under Section 12(b) of the Exchange Act;

- o the description of Rights to Purchase Series A Junior Participating Preferred Shares, which may be transferred with our common shares, contained in our registration statement on form 8-A, dated November 7, 1997, which registers the rights under Section 12(b) of the Exchange Act; and
- o any additional documents that we file with the SEC between the date of this prospectus and the earlier of the following dates:
 - o the date on which all of the shares offered by this prospectus are resold by the persons or entities who or which acquire them from us; and
 - o the date that is one year after the last date on which shares offered by this prospectus are issued by us.

This prospectus is part of a registration statement on Form S-4 which we have filed with the SEC. As permitted by SEC rules, this prospectus does not contain all of the information contained in the registration statement, any amendments, and accompanying exhibits and schedules filed with the SEC. You may refer to the registration statement, any amendments, and the exhibits and schedules for more information about us and our common shares. The registration statement, exhibits and schedules are also available at the SEC's public reference rooms or through its EDGAR database on the Internet.

You may obtain a copy of these filings at no cost by writing to us at The First American Corporation, 1 First American Way, Santa Ana, California 92707-5913, Attention: Mark R Arnesen, or by telephoning us at (714) 800-3000. In order to obtain timely delivery, you must submit your request no later than five days prior to the date you make your investment decision.

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RISK FACTORS

In addition to the other information contained in this prospectus, any supplement to this prospectus and the registration statement of which this prospectus is a part, you should carefully consider the following risk factors before investing in our company.

Revenues may decline during periods when the demand for our products decreases

Our revenues decrease as the number of real estate transactions in which our products are purchased decreases. We have found that the number of real estate transactions in which our products are purchased decreases in the following situations:

- o when mortgage rates are high;
- o when the mortgage fund supply is limited; and
- o when the United States economy is weak.

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We believe that this trend will recur.

Earnings may be reduced if acquisition projections are inaccurate

Our earnings have improved since 1991 in large part because of our acquisition and integration of non-title insurance businesses. These businesses generally have higher margins than our title insurance businesses. The success or failure of each of these acquisitions has depended in large measure upon the accuracy of our projections. Our projections are not always accurate. Inaccurate projections have historically led to lower than expected earnings.

Changes in government regulation could prohibit or limit our operations

Our title insurance, property and casualty insurance, home warranty, thrift, trust and investment businesses are regulated by various governmental agencies. Many of our other businesses operate within statutory guidelines. Changes in the applicable regulatory environment or statutory guidelines could prohibit or restrict our existing or future operations. Such restrictions may adversely affect our financial performance.

Current legal proceedings may have a material adverse affect on our financial condition or results of operations

On May 19, 1999, the State of California and the controller and insurance commissioner of the State of California filed a class action suit in the state court in Sacramento. Initially, the action sought to certify as a class of defendants all title and escrow companies doing business in California from 1970 to the present, including certain of our subsidiaries. The plaintiffs allege that the defendants:

- o failed to give unclaimed property to the State of California on a timely basis;
- o charged California home buyers and other escrow customers fees for services that were never performed or which cost less than the amount charged; and

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- o devised and carried out schemes, known as earnings credits, with financial institutions to receive interest on escrow funds deposited by defendants with financial institutions in demand deposits.

Since the initial filing of the suit, the California Attorney General's Office, on behalf of the State, the controller and the insurance commissioner, indicated that it would not seek to certify a class of defendants, but would instead amend its suit to name an unspecified number of title underwriters and underwritten title companies. To date, the attorney general has neither amended the suit, nor to our knowledge taken steps to progress with it, including the service of process on any party. The attorney general, however, has entered into settlement discussions with various title insurance underwriters, including certain of our subsidiaries. Additionally, the attorney general indicated that it will address issues pertaining to escheat obligations through routine audits conducted by the controller's office, rather than through litigation.

Subsequent to the filing of this lawsuit, the First American Title Insurance Company, a subsidiary of ours, was named and served as a defendant in

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two private class actions in California courts. The allegations in those actions include some, but not all, of the allegations contained in the lawsuit discussed above. The private class actions independently seek injunctive relief, attorneys' fees, damages and penalties in unspecified amounts. One of the private class actions has been dismissed. The remaining private class action has not progressed beyond limited document production.

An adverse decision in these lawsuits may have a material adverse effect on our financial condition or results of operations.

SPECIAL NOTE OF CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this prospectus, any applicable supplement to this prospectus and the documents incorporated by reference into this prospectus, may constitute "forward-looking statements" within the meaning of the federal securities laws. The following or similar words are intended to identify forward-looking statements in our documents:

- | | |
|----------------|----------------|
| o "anticipate" | o "forecast" |
| o "believe" | o "goal" |
| o "estimate" | o "objective" |
| o "expect" | o "projection" |

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:

- o interest rate fluctuations;
- o changes in the performance of the real estate markets;
- o general volatility in the capital markets;
- o changes in applicable government regulations;

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- o consolidation among our significant customers and competitors;
- o legal proceedings commenced by the California attorney general and related litigation;
- o our continued ability to identify businesses to be acquired;
- o changes in our ability to integrate businesses which we acquire; and
- o other factors described in our annual report on form 10-K for the year ended December 31, 2000 filed with the SEC.

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The forward-looking statements speak only as of the date they are made. We do not undertake to update forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements are made.

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THE FIRST AMERICAN CORPORATION

We are a leading provider of business information and related products and services. Our principal executive office is located at 1 First American Way, Santa Ana, California 92707-5913, and our telephone number is (714) 800-3000. You can visit our website at www.firstam.com.

The following is a list of our three business segments and the products and services which we now offer through our subsidiaries:

Title Insurance & Services	Real Estate Information & Services	Consumer & S
o aircraft and vessel title insurance	o credit reporting and information management	-consumer inform
o equity loan services	o default management services	o pre-employ
o lender services	o field inspections	o resident so
o national/commercial title insurance	o flood determination and compliance	o specialized
o residential title insurance	o mortgage document services	o sub-prime c
o subdivision title insurance	o mortgage origination software systems	o vehicle inf
o 1031 tax-deferred exchange services	o mortgage servicing software systems	insurance t
o title and escrow systems	o residential and commercial real estate tax reporting	-consumer servic
	o tax valuation services	o banking ser
	o appraisal and property valuation	o consumer cr
	o database management services and document imaging	o home compar
	o property information and map image products	o home warran
	o title plant and document imaging services	o investment
		o property an
		o trust servi

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Summary Historical Consolidated Financial Data

The following table sets forth summary historical consolidated financial

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and other data for the five years ended December 31, 2000. The summary is qualified in its entirety by reference to the financial statements and other information contained in our annual report on form 10-K for the year ended December 31, 2000, which is incorporated by reference into this prospectus. All data are in thousands except percentages, per share data and employee data.

	Year Ended December 31			
	1996	1997	1998	1999
Revenues.....	\$1,654,976	\$1,962,001	\$2,943,880	\$2,988,169
Income before cumulative effect of a change in accounting for tax service contracts (1)...	55,766	67,765	201,527	88,643
Cumulative effect of a change in accounting for tax service contracts (1).....	--	--	--	(55,640)
Net income.....	55,766	67,765	201,527	33,003
Total assets.....	1,010,556	1,220,377	1,852,731	2,116,414
Notes and contracts payable....	72,761	51,720	143,466	196,815
Mandatorily redeemable preferred securities.....	--	100,000	100,000	100,000
Stockholders' equity.....	384,931	442,783	762,265	815,991
Return on average stockholders' equity (2).....	15.4%	16.4%	33.4%	10.9%
Cash dividends on common shares.....	7,928	14,035	13,894	15,840
Per share of common stock (3)				
Basic:				
Income before cumulative effect of a change in accounting for tax service contracts.....	.98	1.19	3.35	1.37
Cumulative effect of a change in accounting for tax service contracts.....	--	--	--	(.86)
Net income.....	\$.98	\$ 1.19	\$ 3.35	\$.51
Diluted:				
Income before cumulative effect of a change in accounting for tax service contracts.....	\$.98	\$ 1.16	\$ 3.21	\$ 1.34
Cumulative effect of a change in accounting for tax service contracts.....	--	--	--	(.84)
Net income.....	\$.98	\$ 1.16	\$ 3.21	\$.50
Stockholders' equity.....	\$ 6.76	\$ 7.74	\$ 12.08	\$ 12.54
Cash dividends.....	\$.14	\$.25	\$.23	\$.24
Number of common shares outstanding:				
Weighted average during the year:				
Basic.....	56,652	57,092	60,194	64,669
Diluted.....	57,112	58,482	62,720	66,351
End of year.....	56,965	57,186	63,120	65,068
Title orders opened (4).....	1,027	1,173	1,585	1,334
Title orders closed (4).....	775	886	1,210	1,120
Number of employees.....	11,611	13,156	19,669	20,065

.....

All consolidated results reflect the 1999 acquisition of National Information Group accounted for under the pooling-of-interests method of accounting.

- (1) In December 1999, First American adopted Staff Accounting Bulletin No. 101 (SAB), "Revenue Recognition in Financial Statements." The SAB, which became effective January 1, 1999, applies to First American's tax service operations and requires the deferral of the tax service fee and the recognition of that fee as revenue ratably over the expected service period. The amortization rates applied to recognize the revenues assume a 10-year contract life and are adjusted to reflect prepayments. First American periodically reviews its tax service contract portfolio to determine if there have been changes in contract lives and/or changes in the

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number and/or timing of prepayments. Accordingly, First American may adjust the rates to reflect current trends. The SAB finalizes a series of changes instituted by the Securities and Exchange Commission concerning revenue recognition policies. As a result of adopting the SAB, in 1999, First American reported a charge of \$55.6 million, net of income taxes and minority interests, as a cumulative change in accounting principle, reduced net income by \$10.9 million, or \$0.16 per diluted share and restated its quarterly information. During the year ended December 31, 2000, First American recognized \$38.6 million in revenues that were included in the cumulative effect adjustment. Revenues earned by the other products in the real estate information segment are recognized at the time of delivery, as First American has no significant ongoing obligation after delivery.

- (2) Return on average stockholders' equity for 1999 excludes the cumulative effect of a change in accounting for tax service contracts from both net income and stockholders' equity.
- (3) Per share information relating to net income is based on weighted-average number of shares outstanding for the years presented. Per share information relating to stockholders' equity is based on shares outstanding at the end of each year.
- (4) Title order volumes are those processed by the direct title operations of First American and do not include orders processed by agents.

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SELLING SHAREHOLDERS

The table on the following page sets forth, as of the date of this prospectus, the following information:

- o the name of each holder of shares that may currently be sold pursuant to this prospectus;
- o the number of our common shares that each selling shareholder owns as of such date;
- o the number of our common shares owned by each selling shareholder that may be offered for sale from time to time pursuant to this prospectus;
- o the number of our common shares to be held by each selling shareholder assuming the sale of all the shares offered hereby; and
- o by footnote, any position or office held or material relationship with The First American Corporation or any of its affiliates within the past three years, other than that of being a shareholder.

We may amend or supplement this prospectus from time to time to update the disclosure set forth herein.

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Name of Selling Shareholder	Shares Owned of Record Prior to the Offering Number	%	Number of Shares to be Offered for the Selling Shareholder's Account	Shares After C Numb
Henry M. Goldberg	0	0	73,300	0
Rhea Hill, as Trustee under the Rhea Hill Revocable Trust (1)	435			