

FIRST AMERICAN CORP
Form 11-K
June 29, 2006
Table of Contents

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 11-K

ANNUAL REPORT

Pursuant to Section 15(d) of the

Securities and Exchange Act of 1934

x ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2005

OR

.. TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number 1-13585

A. Full title of the Plan and the address of the Plan, if different from that of the issuer named below:
The First American Corporation

401(k) Savings Plan

B. Name of issuer of the securities held pursuant to the Plan and the address of its principal executive office:

The First American Corporation

1 First American Way

Santa Ana, California 92707

Table of Contents

The First American Corporation

401(k) Savings Plan

Contents

December 31, 2005 and 2004

| | |
|---|----------------|
| <u>Report of Independent Registered Public Accounting Firm</u> | Page(s) |
| Financial Statements | 4 |
| <u>Statements of Net Assets Available for Benefits</u> | 5 |
| <u>Statements of Changes in Net Assets Available for Benefits</u> | 6 |
| <u>Notes to Financial Statements</u> | 7-13 |
| Supplemental Schedule* | |
| <u>Schedule H, Line 4i: Schedule of Assets (Held at End of Year) as of December 31, 2005</u> | 14 |
| <u>Signature</u> | 15 |
| Consent of Independent Registered Public Accounting Firm | |

* All other schedules required by the Department of Labor Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 have been omitted because they are not applicable.

Table of Contents

The First American Corporation

401(k) Savings Plan

Audited Financial Statements and

Supplemental Schedule

As of December 31, 2005 and 2004, and for the

Years Ended December 31, 2005 and 2004

Page 3 of 15

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Participants and Administrator of

The First American Corporation 401(k) Savings Plan

In our opinion, the accompanying statements of net assets available for benefits and the related statements of changes in net assets available for benefits present fairly, in all material respects, the net assets available for benefits of The First American Corporation 401(k) Savings Plan (the Plan) at December 31, 2005 and 2004, and the changes in the net assets available for benefits for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Plan s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Our audits were conducted for the purpose of forming an opinion on the basic financial of statements taken as a whole. The supplemental schedule of assets (held at end of year) is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan s management. The supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ PricewaterhouseCoopers LLP

Portland, Oregon

June 29, 2006

Table of Contents**The First American Corporation****401(k) Savings Plan****Statements of Net Assets Available for Benefits****December 31, 2005 and 2004**

| | 2005 | 2004 |
|---------------------------------------|----------------------|--------------------|
| Assets | | |
| Investments, at fair value | \$ 1,054,228,108 | \$ 811,667,738 |
| Participant loans | 19,699,732 | 15,864,501 |
| Total investments | 1,073,927,840 | 827,532,239 |
| Receivables | | |
| Dividends | 2,064,541 | 1,586,352 |
| Employer contributions | 68,672,148 | 59,828,185 |
| Other | 281,019 | 127,915 |
| Total receivables | 71,017,708 | 61,542,452 |
| Total assets | 1,144,945,548 | 889,074,691 |
| Liabilities | | |
| Corrective distributions payable | | 1,754,151 |
| Due to participants | | 66,532 |
| Total liabilities | | 1,820,683 |
| Net assets available for benefits | \$ 1,144,945,548 | \$ 887,254,008 |

The accompanying notes are an integral part of these financial statements.

Table of Contents**The First American Corporation****401(k) Savings Plan****Statements of Changes in Net Assets Available for Benefits****Years Ended December 31, 2005 and 2004**

| | 2005 | 2004 |
|---|---------------------|---------------------|
| Additions | | |
| Net appreciation in fair value of investments | \$ 148,690,958 | \$ 90,340,797 |
| Interest income | 1,062,718 | 1,390,269 |
| Dividend income | 29,331,629 | 16,700,166 |
| Total investment income | 179,085,305 | 108,431,232 |
| Contributions | | |
| Participants | 107,449,382 | 84,782,563 |
| Employer qualified non-elective contribution | 162,209 | |
| Employer | 68,542,648 | 59,826,252 |
| Total contributions | 176,154,239 | 144,608,815 |
| Total additions | 355,239,544 | 253,040,047 |
| Deductions | | |
| Benefits paid to participants | (72,650,163) | (63,871,871) |
| Transfers, net | (25,940,087) | (9,254,797) |
| Corrective distributions | 1,724,879 | (3,110,144) |
| Administrative expenses | (682,633) | (722,381) |
| Total deductions | (97,548,004) | (76,959,193) |
| Increase in net assets | 257,691,540 | 176,080,854 |
| Net Assets Available for Benefits | | |
| Beginning of year | 887,254,008 | 711,173,154 |
| End of year | \$ 1,144,945,548 | \$ 887,254,008 |

The accompanying notes are an integral part of these financial statements.

Table of Contents

The First American Corporation

401(k) Savings Plan

Notes to Financial Statements

December 31, 2005 and 2004

1. Description of the Plan

The following description of The First American Corporation 401(k) Savings Plan (the Plan) provides only general information. Participants should refer to the Plan document for a more complete description of the Plan's provisions.

General

The Plan is a defined contribution profit sharing plan covering employees of adopting employers and subsidiaries greater than 50% owned by The First American Corporation (the Company). An employee is eligible to participate in the Plan if the employee is at least 21 years of age and has been employed by the Company for at least 30 days. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

The Company's trustee and recordkeeper of the Plan are Fidelity Management Trust Company and Fidelity Investments Institutional Operations Company, Inc., respectively.

Contributions

Participants classified as non-highly compensated, as defined by the Plan, may contribute from 1% to 60% of pretax annual compensation. Participants classified as highly compensated, as defined by the Plan, may contribute from 1% to 15% of pretax annual compensation. Contributions are subject to certain limitations.

Discretionary matching contribution amounts may be contributed by the Company at the discretion of the Company's Board of Directors and are based on the pretax profitability of the Company for the year. Discretionary matching contributions were \$68,672,148 and \$59,828,185 for the years ended December 31, 2005 and 2004, respectively. The 2005 amount was paid in the form of a cash contribution and invested based on each eligible participant's investment election under the Plan. The 2004 amount was paid by issuing The First American Corporation stock valued at the closing stock price on the date the contribution was received. Adjustments to participant allocations of the discretionary matching contributions may occur subsequent to the original funding date.

Participants may also roll over distributions from other qualified 401(a) plans or Rollover (Conduit) Individual Retirement Accounts.

Participant Accounts

Upon enrollment in the Plan a participant may direct contributions in 1% increments to any of ten available investment options, one of which is the option to invest in shares of the Company. Participants may change their investment options at any time.

The participants' accounts are credited with their own contributions, any Company contributions, investment earnings or losses, and a quarterly account maintenance fee. Allocations of Company matching contributions are based on the participant's compensation and contributions to the Plan during the year. The benefit to which a participant is entitled is based on the sum of the aforementioned items since all participants' accounts are 100% vested.

Vesting

Participants are immediately vested in their own contributions and any Company contributions, plus actual earnings thereon.

Table of Contents

The First American Corporation

401(k) Savings Plan

Notes to Financial Statements

December 31, 2005 and 2004

Payment of Benefits

The plan allows for participant withdrawals in lump sum upon retirement, death, disability, termination or attainment of the eligible age as defined by the Plan. Participants may also withdraw up from their account balances, as defined by the Plan, in the event of financial hardship, which is determined pursuant to the provisions of the Internal Revenue Code (IRC); and from any amounts rolled over from a 401(a) plan or Rollover (Conduit) Individual Retirement Account.

Loans

Participants may borrow a portion of their account balance pursuant to rules and procedures established by the Plan's administrative committee. The amount borrowed may not exceed the lesser of (1) 50% of the value of the participant's account balance; or (2) \$50,000 less the highest outstanding loan balance the participant may have had outstanding during the one-year period preceding the day on which the new loan from the Plan would be made.

Loan terms are determined at the discretion of the administrative committee. The loans are collateralized by the balance in the participant's account and bear a rate of interest that is reasonable at the time the loan is made, as determined by the administrative committee. Principal and interest are paid through payroll deductions. A participant may fully repay a loan at any time without penalty, however partial prepayments are not permitted.

Transfers

During 2005, net assets transferred out of the Plan were \$25,940,087. On September 14, 2005, the Company completed the contribution of the Credit Information Group (CIG) Business to the First Advantage Corporation (First Advantage) under the terms of the master transfer agreement. The combination of the CIG Business and First Advantage is a transaction between businesses under common control of the Company. Prior to the transaction, the employees of CIG participated in the Plan. A total of \$27,300,273, representing related plan assets and loans receivable of the CIG employees, was transferred to the First Advantage Corporation 401(k) Savings Plan.

During 2004, \$9,260,790 of assets, including loans receivable, was transferred out of the Plan as a result of a spin-off of the First Advantage participants. The spin-off, effective January 2, 2004, formed the First Advantage Corporation 401(k) Savings Plan.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Investment Valuation and Income Recognition

Investments in mutual funds and common stock are stated at quoted market prices, except for the Money Market Fund and the Equity Index Pool which are recorded at amortized cost which approximates market value and net asset value, respectively. Participant loans are valued at their outstanding principal balances, which approximate fair value. Investments in security transactions are accounted for on the date securities are purchased or sold (trade date). Dividend income is recorded in the participant accounts on the ex-dividend date. Interest income is recognized on an accrual basis as earned.

Table of Contents**The First American Corporation****401(k) Savings Plan****Notes to Financial Statements****December 31, 2005 and 2004**

The Plan presents in the statements of changes in net assets available for benefits the net appreciation (depreciation) in the fair value of its investments which consists of the realized gains (losses) and the unrealized appreciation (depreciation) on those investments.

Payment of Benefits

Benefits are recorded when paid.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Plan's management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts in the statements of changes in net assets available for benefits during the reporting period. Actual results could differ from those estimates.

Risks and Uncertainties

The Plan provides for various investment options in any combination of stocks, mutual funds and other investment securities. Investment securities are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in circumstances in the near term would materially affect participants' account balances and the amounts reported in the statements of net assets available for benefits and the statements of changes in net assets available for benefits.

3. Investments

The following presents investments that represent 5% or more of the Plan's net assets available for benefits at December 31:

| | 2005 | 2004 |
|--|---------------|---------------|
| Mutual funds | | |
| Davis Funds, NY Venture Fund, Inc. Class A | \$ 71,994,201 | \$ 55,899,043 |
| * Fidelity Balanced Fund | 62,890,470 | 47,044,934 |
| * Fidelity Low-Priced Stock Fund | 80,764,570 | 86,228,583 |
| * Fidelity Diversified International Fund | 71,152,913 | 52,385,200 |
| * Fidelity Retirement Money Market Portfolio | 74,791,225 | 61,938,074 |
| Common stock | | |
| * The First American Corporation | 510,475,814 | 371,856,437 |

* Denotes party-in-interest

Table of Contents**The First American Corporation****401(k) Savings Plan****Notes to Financial Statements****December 31, 2005 and 2004**

During 2005 and 2004, the Plan's investments, including gains and losses on investments bought and sold, as well as held during the year, appreciated in value by \$148,690,958 and \$90,340,797, respectively, as follows:

| | 2005 | 2004 |
|---|----------------|---------------|
| Mutual funds | \$ 22,145,401 | \$ 33,617,446 |
| The First American Corporation common stock | 126,476,706 | 56,384,076 |
| Other common stock | 68,851 | 339,275 |
| | \$ 148,690,958 | \$ 90,340,797 |

Investment Options

Participant contributions are directed by Plan participants to the following investment options with the exception of funds frozen due to a fund closing or through plan merger:

Money Market Fund

Money market funds invest in U.S. dollar denominated securities, such as bills, notes, bonds and repurchase agreements. More than 25% of the total assets of the fund may be invested in the financial services industry.

Bond Index Fund

Bond funds invest in securities, such as bills, notes, bonds and other direct obligations issued by corporations and the United States Treasury. The bond index fund normally will invest at least 80% of its total assets in bonds included in the Lehman Brothers Aggregate Bond Index. The objective of a bond fund is to provide a higher level of current income than money market funds with minimal fluctuations in principal. The additional objective of the bond index fund is to seek results that correspond to the total return of the bonds in the Lehman Brothers Aggregate Bond Index while maintaining similar risk characteristics.

Balanced Fund

Balanced funds invest a majority (generally not less than 60%) of their assets in equity securities and the remainder in bonds and other debt securities, including lower-quality debt securities. Balanced funds may invest in securities of domestic and foreign issuers. The objective of a balanced fund is to seek income and long-term growth of capital.

Large Cap Equity Index Fund

Equity index funds invest primarily in the common stocks that make up a widely recognized unmanaged index of common stocks. In the Plan, the equity index fund invests mainly in the common stocks of the 500 companies that make up the Standard & Poors 500 Index. The fund seeks to approximate the composition and total return of the Standard & Poors 500 Index.

Large Cap Growth Stock Fund

Edgar Filing: FIRST AMERICAN CORP - Form 11-K

Large cap growth stock funds invest primarily in common stocks of companies with large market capitalizations that the investment manager believes have more growth potential than other companies with similar market capitalizations. The objective is to seek long-term growth of capital.

Page 10 of 15

Table of Contents

The First American Corporation

401(k) Savings Plan

Notes to Financial Statements

December 31, 2005 and 2004

Large Cap Value Stock Fund

Large cap value stock funds invest primarily in common stocks of companies with large market capitalizations that the investment manager believes are undervalued relative to the common stocks of other companies with similar market capitalizations. The objective is to seek long-term growth of capital.

Small Cap Growth Stock Fund

Small cap growth stock funds invest primarily in common stocks of companies with small capitalizations and to some degree in companies with mid-size capitalizations that the investment manager believes have more growth potential than other companies with similar market capitalization. While they have potential for significant growth, small capitalization companies tend to have greater risk than large capitalization companies. The objective is to seek long-term growth of capital.

Small Cap Value Stock Fund

Small cap value stock funds invest primarily in common stocks of companies with small capitalizations and to some degree in companies with mid-size capitalizations that the investment manager believes are undervalued relative to the common stocks of other companies with similar market capitalizations, thereby providing the potential for significant capital appreciation. Small capitalization companies tend to have greater risk than large capitalization companies. The objective is to seek long-term growth of capital.

International Fund

International funds invest primarily (normally at least 65% of their assets) in foreign securities. Normally, international stock funds invest primarily in common stocks. International funds carry additional risks, including political and economic uncertainties of foreign companies as well as the risk of currency fluctuations. The objective is to seek long-term growth of capital.

Wells Fargo Stock Fund (frozen)

This fund invests in the Wells Fargo common stock and short-term money market funds. This is a frozen fund for Wells Fargo employees who were participants in the Wells Fargo Plan and who transferred employment to REELS on November 1, 1998. New contributions and transfers cannot be invested in the frozen fund and amounts transferred out of the Wells Fargo Stock Fund cannot be transferred back into the fund.

Company Stock Fund

This fund invests in the common shares of The First American Corporation and such other assets, awaiting investment in First American shares, as the plan trustee considers advisable.

Table of Contents

The First American Corporation

401(k) Savings Plan

Notes to Financial Statements

December 31, 2005 and 2004

4. Related Party and Party-in-interest Transactions

The Company, which qualifies as a party-in-interest, absorbs certain administrative expenses of the Plan. Such transactions qualify for a statutory exemption. Total expenses paid by the Company were \$145,861 and \$212,455 for the years ended December 31, 2005 and 2004, respectively.

The Plan held Company Stock with fair values of \$510,475,814 and \$371,856,437 at December 31, 2005 and 2004, respectively. At December 31, 2005 and 2004, 11,268,782 and 10,582,141 shares of common stock are included in First American stock, respectively. During 2005, the Plan made purchases and sales of First American stock totaling \$84,164,923 and \$80,041,866, respectively. During 2004, the Plan made purchases and sales of The First American Stock Fund totaling \$67,480,339 and \$55,655,409, respectively.

Certain Plan investments are shares of mutual funds managed by Fidelity Management Trust Company. Fidelity Management Trust Company is the trustee as defined by the Plan and, therefore, these transactions qualify as party-in-interest transactions.

5. Corrective Distributions Payable

The Plan is subject to certain compliance requirements of non-discrimination rules under ERISA and IRS guidelines. For the Plan year ended December 31, 2005, the Plan has not yet completed the non-discrimination tests. In the event the Plan does not satisfy the tests, the Plan will correct the failure within the timeframe and available methods allowed under the Treasury regulations. For the Plan year ended December 31, 2004, the Plan failed the non-discrimination tests. The Plan has recorded corrective distributions payable of \$1,754,151 at December 31, 2004 in the statement of net assets available for benefits to reflect the appropriate refund of a portion of the contributions made by highly compensated participants in order to comply with non-discrimination requirements. In October 2005, the Plan's sponsor elected to make a Qualified Non-Elective Contribution in the amount of \$162,420 as opposed to distributing the excess contributions.

6. Plan Termination

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and terminate the Plan subject to the provisions of ERISA. In the event of Plan termination, the net assets of the Plan will be distributed to the participants in accordance with the provisions of ERISA.

7. Federal Income Tax Status

The Internal Revenue Service has determined and informed the Company by a letter dated February 10, 2003, that the Plan is designated in accordance with applicable sections of the IRC and is, therefore, exempt from federal income taxes. The Plan has been amended, as discussed in Note 9, since receiving the determination letter. However, the plan administrator believes that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC.

Table of Contents

The First American Corporation

401(k) Savings Plan

Notes to Financial Statements

December 31, 2005 and 2004

8. Inactive Accounts

Net assets available for plan benefits as of December 31, 2005 and 2004, included approximately \$195,208,498 and \$153,777,421, respectively, representing the vested portion of accounts of participants who have terminated their employment with the Company for which disbursement of their account balances has not yet been requested.

9. Plan Amendments

During 2005 and 2004, the plan administrative committee approved amendments to the Plan. The most significant amendments are as follows:

As a result of the contribution of the Credit Information Group (CIG) Business to the First Advantage Corporation on September 14, 2005, related plan assets and loans receivable of the CIG employees were transferred to the First Advantage Corporation 401(k) Savings Plan on October 28, 2005 and December 30, 2005.

Effective January 1, 2006, the Company Stock Fund was converted to an employee stock ownership plan, and offers participants a choice to receive dividends as a direct taxable cash payment or to continue having dividends reinvested in First American stock.

Effective for distributions made on or after March 28, 2005, the mandatory cash-out threshold was reduced from \$5,000 to \$1,000.

The Restatement, Purpose, Background and History of the Plan were updated to include the merger of the Island Title Corporation Profit Sharing Plan under the Bank of Hawaii Plan and Trust and the Island Title Corporation 401(k) Plan effective January 1, 2005.

Table of Contents**The First American Corporation****401(k) Savings Plan**

EIN: 95-1068610 PN: 003

Schedule H, Line 4i: Schedule of Assets (Held at End of Year) as of December 31, 2005

| (c) | | | | |
|---|---|---------------|-------|------------------|
| Description of Investment, | | | | |
| (b) | Including Maturity Date, | (e) | | |
| Identity of Issue, Borrower, | Rate of Interest, Collateral, | Current | | |
| (a) Lessor or Similar Party | Par or Maturity Value | (d) Cost** | Value | |
| Davis Funds, NY Venture Fund, Inc. Class A | Registered Investment Company | N/A | \$ | 71,994,201 |
| Vanguard Explorer Fund Admiral Class | Registered Investment Company | N/A | | 26,899,507 |
| Lord Abbett Small-Cap Value Fund Class Y | Registered Investment Company | N/A | | 32,957,300 |
| * The First American Corporation 11,268,782 shares of common stock | Common Stock | N/A | | 510,475,814 |
| * Fidelity Balanced Fund | Registered Investment Company | N/A | | 62,890,470 |
| * Fidelity Low-Priced Stock Fund | Registered Investment Company | N/A | | 80,764,570 |
| * Fidelity Diversified International Fund | Registered Investment Company | N/A | | 71,152,913 |
| * Fidelity Large-Cap Stock Fund | Registered Investment Company | N/A | | 51,106,659 |
| * Fidelity Retirement Money Market Portfolio | Registered Investment Company | N/A | | 74,791,225 |
| * Fidelity US Bond Index Fund | Registered Investment Company | N/A | | 43,473,212 |
| * Fidelity US Equity Index Pool | Commingled Pool | N/A | | 21,107,460 |
| Wells Fargo & Company 100,241 shares of common stock and \$268,933 in money market fund | Registered Investment Company and Common Stock | N/A | | 6,568,011 |
| * Fidelity Group Stock Purchase Account | Registered Investment Company | | | 46,766 |
| * Loans to participants | Maturities through July 2022 with interest from 5 percent to 11.5 percent | N/A | | 19,699,732 |
| | | | | \$ 1,073,927,840 |

* Denotes party-in-interest

** Under ERISA, an asset held for investment purposes is any asset held by the Plan on the last day of the Plan's fiscal year or acquired at any time during the Plan's fiscal year and disposed of any time before the last day of the Plan's fiscal year, with certain exceptions. Cost information may be omitted with respect to participant-directed investments

Table of Contents

SIGNATURE

The Plan. Pursuant to the requirements of the Securities Exchange Act of 1934, the committee administering the Plan has duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

The First American Corporation

401(k) Savings Plan

Date: June 29, 2006

By: */s/* **MAX O. VALDES**
Max O. Valdes
Member of the above-described Committee

Page 15 of 15