

First American Financial Corp
Form 10-Q
October 24, 2013

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, 2013

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)
(714) 250-3000

92707-5913
(Zip Code)

(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

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

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 18, 2013, there were 105,701,742 shares of common stock outstanding.

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

INFORMATION INCLUDED IN REPORT

PART I: FINANCIAL INFORMATION

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Items 3 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 HOLDING OF AND EXPECTED CASH FLOWS FROM DEBT SECURITIES AND ASSUMPTIONS RELATING THERETO;
- 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;
- THE EFFECTS OF FUTURE ACTIONS OR INACTION OF THE UNITED STATES GOVERNMENT OR RELATED AGENCIES, INCLUDING THOSE RELATED TO THE UNITED STATES DEBT CEILING, A SHUTDOWN OF THE FEDERAL GOVERNMENT, OR MONETARY POLICY;
- EXPENSE MANAGEMENT;
- FUTURE ACTIONS TO BE TAKEN IN CONNECTION WITH THE COMPANY S REVIEW OF ITS AGENCY RELATIONSHIPS;
- THE REALIZATION OF TAX BENEFITS ASSOCIATED WITH CERTAIN LOSSES AND UNRECOGNIZED TAX BENEFIT ESTIMATES;
- FUTURE PAYMENT OF DIVIDENDS;
- THE SUFFICIENCY OF THE COMPANY S RESOURCES TO SATISFY OPERATIONAL CASH REQUIREMENTS; AND
- THE LIKELIHOOD OF CHANGES IN EXPECTED ULTIMATE LOSSES AND CORRESPONDING LOSS RATES AND CLAIM RESERVES,
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, 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;
- 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;
- 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;
- SYSTEMS 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; 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, 2013	December 31, 2012
Assets		
Cash and cash equivalents	\$ 833,857	\$ 627,208
Accounts and accrued income receivable, net	254,941	259,779
Income taxes receivable	32,559	14,093
Investments:		
Deposits with savings and loan associations and banks	60,964	71,196
Debt securities, includes pledged securities of \$118,156 and \$105,849	2,843,759	2,651,881
Equity securities	250,525	197,920
Other long-term investments	194,513	192,563
	3,349,761	3,113,560
Loans receivable, net	77,067	107,352
Property and equipment, net	361,547	343,450
Title plants and other indexes	523,456	521,741
Goodwill	843,477	845,857
Other intangible assets, net	47,959	57,095
Other assets	176,446	160,712
	\$ 6,501,070	\$ 6,050,847
Liabilities and Equity		
Deposits	\$ 1,724,209	\$ 1,411,193
Accounts payable and accrued liabilities	749,935	820,503
Due to CoreLogic, Inc. (CoreLogic), net	54,220	53,510
Deferred revenue	185,570	170,663
Reserve for known and incurred but not reported claims	1,054,037	976,462
Deferred income taxes	36,987	36,987
Notes and contracts payable	320,521	229,760
	4,125,479	3,699,078
Commitments and contingencies (Note 16)		
Stockholders' equity:		
Preferred stock, \$0.00001 par value, Authorized-500 shares; Outstanding-none		
Common stock, \$0.00001 par value:		

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Authorized-300,000 shares; Outstanding-105,689 shares and 107,239 shares as of September 30, 2013 and December 31, 2012, respectively	1	1
Additional paid-in capital	2,070,457	2,111,605
Retained earnings	482,141	387,015
Accumulated other comprehensive loss	(180,277)	(150,556)
Total stockholders' equity	2,372,322	2,348,065
Noncontrolling interests	3,269	3,704
Total equity	2,375,591	2,351,769
	\$ 6,501,070	\$ 6,050,847

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)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues				
Direct premiums and escrow fees	\$ 573,116	\$ 535,846	\$ 1,644,172	\$ 1,446,920
Agent premiums	549,052	443,028	1,530,247	1,220,375
Information and other	159,775	159,103	483,430	482,690
Investment income	26,001	23,154	71,544	57,077
Net realized investment (losses) gains	(6,966)	47,271	6,812	61,500
Net other-than-temporary impairment (OTTI) losses recognized in earnings:				
Total OTTI losses on debt securities				(1,757)
Portion of OTTI losses on debt securities recognized in other comprehensive loss				(1,807)
				(3,564)
	1,300,978	1,208,402	3,736,205	3,264,998
Expenses				
Personnel costs	377,872	344,140	1,087,139	971,462
Premiums retained by agents	440,453	355,191	1,224,020	978,703
Other operating expenses	222,297	213,111	660,408	607,908
Provision for policy losses and other claims	114,952	106,209	429,744	288,276
Depreciation and amortization	18,554	18,429	55,141	54,944
Premium taxes	15,771	13,470	42,683	36,546
Interest	4,034	1,970	11,209	7,437
	1,193,933	1,052,520	3,510,344	2,945,276
Income before income taxes	107,045	155,882	225,861	319,722
Income taxes	42,950	51,982	90,586	111,196
Net income	64,095	103,900	135,275	208,526
Less: Net income attributable to noncontrolling interests	205	430	535	762
Net income attributable to the Company	\$ 63,890	\$ 103,470	\$ 134,740	\$ 207,764
Net income per share attributable to the Company's stockholders (Note 10):				
Basic	\$ 0.60	\$ 0.97	\$ 1.25	\$ 1.95
Diluted	\$ 0.59	\$ 0.95	\$ 1.23	\$ 1.92

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Cash dividends declared per share	\$	0.12	\$	0.08	\$	0.36	\$	0.24
Weighted-average common shares outstanding (Note 10):								
Basic		106,437		106,445		107,400		106,099
Diluted		108,437		108,709		109,490		108,243

See notes to condensed consolidated financial statements.

FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES

Condensed Consolidated Statements of Comprehensive Income

(in thousands)

(unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income	\$ 64,095	\$ 103,900	\$ 135,275	\$ 208,526
Other comprehensive income (loss), net of tax:				
Unrealized gain (loss) on securities	5,839	11,051	(34,906)	37,120
Unrealized gain on securities for which credit-related portion was recognized in earnings	400	1,914	420	5,494
Foreign currency translation adjustment	8,968	8,469	(7,648)	7,803
Pension benefit adjustment	4,121	1,258	12,408	3,773
Total other comprehensive income (loss), net of tax	19,328	22,692	(29,726)	54,190
Comprehensive income	83,423	126,592	105,549	262,716
Less: Comprehensive income attributable to noncontrolling interests	207	434	530	768
Comprehensive income attributable to the Company	\$ 83,216	\$ 126,158	\$ 105,019	\$ 261,948

See notes to condensed consolidated financial statements.

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

Condensed Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

	For the Nine Months Ended September 30,	
	2013	2012
Cash flows from operating activities:		
Net income	\$ 135,275	\$ 208,526
Adjustments to reconcile net income to cash provided by operating activities:		
Provision for policy losses and other claims	429,744	288,276
Depreciation and amortization	55,141	54,944
Excess tax benefits from share-based compensation	(5,796)	(1,029)
Share-based compensation	18,601	11,922
Net realized investment gains	(6,812)	(61,500)
Net OTTI losses recognized in earnings		3,564
Equity in earnings of affiliates, net	(11,240)	(1,948)
Dividends from equity method investments	7,072	6,413
Changes in assets and liabilities excluding effects of acquisitions and noncash transactions:		
Claims paid, including assets acquired, net of recoveries	(348,058)	(338,911)
Net change in income tax accounts	2,931	81,008
Decrease (increase) in accounts and accrued income receivable	3,977	(33,482)
(Decrease) increase in accounts payable and accrued liabilities	(54,443)	15,369
Net change in due to CoreLogic, net	(539)	(77)
Increase in deferred revenue	15,127	13,961
Other, net	4,853	4,459
Cash provided by operating activities	245,833	251,495
Cash flows from investing activities:		
Net cash effect of acquisitions/dispositions	(650)	(26,142)
Net decrease (increase) in deposits with banks	10,411	(30,880)
Net decrease in loans receivable	30,285	26,885
Purchases of debt and equity securities	(1,227,720)	(1,320,652)
Proceeds from sales of debt and equity securities	507,757	835,535
Proceeds from maturities of debt securities	401,941	359,518
Net change in other long-term investments	1,971	5,819
Capital expenditures	(61,017)	(56,642)
Proceeds from sale of property and equipment	5,399	7,423
Cash used for investing activities	(331,623)	(199,136)
Cash flows from financing activities:		
Net change in deposits	313,016	322,469
Proceeds from issuance of debt	249,095	340,065
Repayment of debt	(167,036)	(367,940)

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Net (payments) proceeds in connection with share-based compensation plans	(1,080)	3,253
Net activity related to noncontrolling interests	(1,800)	(2,563)
Excess tax benefits from share-based compensation	5,796	1,029
Purchase of Company shares	(64,606)	
Cash dividends	(38,629)	(23,315)
Cash provided by financing activities	294,756	272,998
Effect of exchange rate changes on cash	(2,317)	1,716
Net increase in cash and cash equivalents	206,649	327,073
Cash and cash equivalents Beginning of period	627,208	418,299
Cash and cash equivalents End of period	\$ 833,857	\$ 745,372
Supplemental information:		
Cash paid during the period for:		
Interest	\$ 9,428	\$ 7,227
Premium taxes	\$ 45,475	\$ 37,615
Income taxes, net	\$ 87,242	\$ 30,439
Noncash investing and financing activities:		
Property and equipment acquired through capital lease obligations	\$ 8,920	\$
Liabilities assumed in connection with acquisitions	\$	\$ 2,768

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 September 30,	107,239	\$ 1	\$ 2,111,605	\$ 387,015	\$ (150,556)	\$ 2,348,065	\$ 3,704	\$ 2,351,769
Income for three months ended September 30,				134,740		134,740	535	135,275
Dividends on common shares				(38,629)		(38,629)		(38,629)
Repurchase of common shares	(2,951)		(64,606)			(64,606)		(64,606)
Shares issued in connection with								
Equity-based compensation	1,401		5,701	(985)		4,716		4,716
Equity-based compensation activity			18,601			18,601		18,601
Interest paid to noncontrolling interests			(844)			(844)	(965)	(1,809)
Other comprehensive income (Note 3)					(29,721)	(29,721)	(5)	(29,726)
	105,689	\$ 1	\$ 2,070,457	\$ 482,141	\$ (180,277)	\$ 2,372,322	\$ 3,269	\$ 2,375,591

See notes to condensed consolidated financial statements.

FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES

Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 1 Basis of Condensed Consolidated Financial Statements

Spin off

First American Financial Corporation (the Company) became a publicly traded company following its spin-off from its prior parent, The First American Corporation (TFAC), on June 1, 2010 (the Separation). On that date, TFAC distributed all of the Company's outstanding shares to the record date shareholders of TFAC on a one-for-one basis (the Distribution). After the Distribution, the Company owned TFAC's financial services businesses and TFAC, which reincorporated and assumed the name CoreLogic, Inc. (CoreLogic), continued to own its information solutions businesses.

Basis of Presentation

The condensed consolidated financial information included in this report has been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and Article 10 of Securities and Exchange Commission (SEC) Regulation S-X. The principles for condensed interim financial information do not require the inclusion of all the information and footnotes required by GAAP for complete financial statements. Therefore, these financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2012. The condensed consolidated financial statements included herein are unaudited; however, in the opinion of management, they contain all normal recurring adjustments necessary for a fair statement of the consolidated results for the interim periods. All material intercompany transactions and balances have been eliminated upon consolidation. Certain 2012 amounts have been reclassified to conform to the 2013 presentation.

Recently Adopted Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board (FASB) issued updated guidance requiring entities to present, either in a single note or parenthetically on the face of the financial statements, the effect of significant amounts reclassified from each component of accumulated other comprehensive income based on its source and the income statement line items affected by the reclassification. If the component is not required to be reclassified to net income in its entirety, entities should instead cross reference to the related footnote for additional information. The updated guidance was effective prospectively for interim and annual reporting periods beginning after December 15, 2012, with early adoption permitted. Except for the disclosure requirements, the adoption of the guidance had no impact on the Company's condensed consolidated financial statements.

In July 2012, the FASB issued updated guidance that is intended to reduce the cost and complexity of performing an impairment test for indefinite-lived intangible assets, other than goodwill, by simplifying how an entity tests those assets for impairment and to improve consistency in impairment testing guidance among long-lived asset categories. The updated guidance permits entities to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test in accordance with current guidance. The updated guidance was effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. The adoption of the guidance had no impact on the Company's condensed consolidated financial statements.

In December 2011, the FASB issued updated guidance requiring entities to disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. The updated guidance was effective for interim and annual reporting periods beginning on or after January 1, 2013. The adoption of the guidance had no impact on the Company's condensed consolidated financial statements.

Pending Accounting Pronouncements

In July 2013, the FASB issued updated guidance intended to eliminate the diversity in practice regarding financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2013, with early adoption permitted. Management expects the adoption of this guidance to have no impact on the Company's condensed consolidated financial statements.

FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES

Notes to Condensed Consolidated Financial Statements (Continued)
(unaudited)

Note 2 Escrow Deposits, Like-kind Exchange Deposits and Trust Assets

The Company administers escrow deposits and trust assets as a service to its customers. Escrow deposits totaled \$5.0 billion and \$4.2 billion at September 30, 2013 and December 31, 2012, respectively, of which \$1.6 billion and \$1.2 billion, respectively, were held at the Company's federal savings bank subsidiary, First American Trust, FSB. The escrow deposits held at First American Trust, FSB are included in the accompanying condensed consolidated balance sheets in cash and cash equivalents and debt and equity securities, with offsetting liabilities included in deposits. The remaining escrow deposits were held at third-party financial institutions.

Trust assets totaled \$2.9 billion and \$2.8 billion at September 30, 2013 and December 31, 2012, respectively, and were held or managed by First American Trust, FSB. Escrow deposits held at third-party financial institutions and trust assets are not considered assets of the Company and, therefore, are not included in the accompanying condensed consolidated balance sheets. However, the Company could be held contingently liable for the disposition of these assets.

In conducting its operations, the Company often holds customers' assets in escrow, pending completion of real estate transactions. As a result of holding these customers' assets in escrow, the Company has ongoing programs for realizing economic benefits, including investment programs, borrowing agreements, and vendor services arrangements with various financial institutions. The effects of these programs are included in the condensed consolidated financial statements as income or a reduction in expense, as appropriate, based on the nature of the arrangement and benefit received.

The Company facilitates tax-deferred property exchanges for customers pursuant to Section 1031 of the Internal Revenue Code and tax-deferred reverse exchanges pursuant to Revenue Procedure 2000-37. As a facilitator and intermediary, the Company holds the proceeds from sales transactions and takes temporary title to property identified by the customer to be acquired with such proceeds. Upon the completion of such exchange, the identified property is transferred to the customer or, if the exchange does not take place, an amount equal to the sales proceeds or, in the case of a reverse exchange, title to the property held by the Company is transferred to the customer. Like-kind exchange funds held by the Company totaled \$1.1 billion and \$1.4 billion at September 30, 2013 and December 31, 2012, respectively. The like-kind exchange deposits were held at third-party financial institutions and, due to the structure utilized to facilitate these transactions, the proceeds and property are not considered assets of the Company and, therefore, are not included in the accompanying condensed consolidated balance sheets. All such amounts are placed in deposit accounts insured, up to applicable limits, by the Federal Deposit Insurance Corporation. The Company could be held contingently liable to the customer for the transfers of property, disbursements of proceeds and the return on the proceeds.

FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES

Notes to Condensed Consolidated Financial Statements (Continued)
(unaudited)

Note 3 Debt and Equity Securities

The amortized cost and estimated fair value of investments in debt securities, all of which are classified as available-for-sale, are as follows:

(in thousands)	Amortized cost	Gross unrealized		Estimated fair value	Other-than- temporary impairments in AOCI
		Gains	Losses		
September 30, 2013					
U.S. Treasury bonds	\$ 92,977	\$ 1,012	\$ (470)	\$ 93,519	\$
Municipal bonds	470,768	5,482	(10,263)	465,987	
Foreign bonds	219,175	1,495	(649)	220,021	
Governmental agency bonds	296,569	416	(4,604)	292,381	
Governmental agency mortgage-backed securities	1,394,859	3,325	(18,326)	1,379,858	
Non-agency mortgage-backed securities (1)	24,085		(3,782)	20,303	20,743
Corporate debt securities	367,099	7,786	(3,195)	371,690	
	\$ 2,865,532	\$ 19,516	\$ (41,289)	\$ 2,843,759	\$ 20,743
December 31, 2012					
U.S. Treasury bonds	\$ 80,651	\$ 1,574	\$ (50)	\$ 82,175	\$
Municipal bonds	361,912	14,516	(606)	375,822	
Foreign bonds	236,630	2,312	(197)	238,745	
Governmental agency bonds	324,323	1,445	(318)	325,450	
Governmental agency mortgage-backed securities	1,271,408	11,259	(1,135)	1,281,532	
	26,656		(4,810)	21,846	20,743

Non-agency
mortgage-backed
securities (1)

Corporate debt securities	311,695	14,941	(325)	326,311	
	\$ 2,613,275	\$ 46,047	\$ (7,441)	\$ 2,651,881	\$ 20,743

(1) At December 31, 2012, the \$26.7 million amortized cost is net of \$3.6 million in other-than-temporary impairments determined to be credit related which have been recognized in earnings for the year ended December 31, 2012. At September 30, 2013, the \$3.8 million gross unrealized losses include \$3.7 million of unrealized losses for securities determined to be other-than-temporarily impaired and \$0.1 million of unrealized losses for securities for which an other-than-temporary impairment has not been recognized. At December 31, 2012, the \$4.8 million gross unrealized losses include \$4.4 million of unrealized losses for securities determined to be other-than-temporarily impaired and \$0.4 million of unrealized losses for securities for which an other-than-temporary impairment has not been recognized. The \$20.7 million other-than-temporary impairments recorded in accumulated other comprehensive income (AOCI) through September 30, 2013 and December 31, 2012 represent the amount of other-than-temporary impairment losses recognized in AOCI which were not included in earnings due to the fact that the losses were not considered to be credit related. Other-than-temporary impairments were recognized in AOCI for non-agency mortgage-backed securities only.

The cost and estimated fair value of investments in equity securities, all of which are classified as available-for-sale, are as follows:

(in thousands)	Cost	Gross unrealized Gains	Gross unrealized Losses	Estimated fair value
September 30, 2013				
Preferred stocks	\$ 15,926	\$ 1,273	\$ (1,404)	\$ 15,795
Common stocks	224,946	12,706	(2,922)	234,730
	\$ 240,872	\$ 13,979	\$ (4,326)	\$ 250,525
December 31, 2012				
Preferred stocks	\$ 13,326	\$ 752	\$ (41)	\$ 14,037
Common stocks	177,844	6,447	(408)	183,883
	\$ 191,170	\$ 7,199	\$ (449)	\$ 197,920

FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES

Notes to Condensed Consolidated Financial Statements (Continued)
(unaudited)

The Company had the following net unrealized gains (losses) as of September 30, 2013 and December 31, 2012:

(in thousands)	As of September 30, 2013	As of December 31, 2012
Debt securities for which an other-than-temporary impairment has been recognized	\$ (3,735)	\$ (4,435)
Debt securities all other	(18,038)	43,041
Equity securities	9,653	6,750
	\$ (12,120)	\$ 45,356

Sales of debt and equity securities resulted in realized gains of \$3.4 million and \$48.3 million and realized losses of \$9.7 million and \$32 thousand for the three months ended September 30, 2013 and 2012, respectively. Sales of debt and equity securities resulted in realized gains of \$15.6 million and \$63.9 million and realized losses of \$11.7 million and \$0.3 million for the nine months ended September 30, 2013 and 2012, respectively.

The Company had the following gross unrealized losses as of September 30, 2013 and December 31, 2012:

(in thousands) September 30, 2013	Less than 12 months Estimated fair value	Unrealized losses	12 months or longer Estimated fair value	Unrealized losses	Estimated fair value	Total Unrealized losses