

FIRST AMERICAN CORP
Form 11-K
June 29, 2007
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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

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2006

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

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The First American Corporation

401(k) Savings Plan

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* 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.

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Audited Financial Statements and

Supplemental Schedule

As of December 31, 2006 and 2005, and for the

Years Ended December 31, 2006 and 2005

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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, 2006 and 2005, 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, 2007

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The First American Corporation

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Statements of Net Assets Available for Benefits

December 31, 2006 and 2005

	2006	2005
Assets		
Investments, at fair value	\$ 1,163,980,194	\$ 1,054,228,108
Participant loans	24,677,198	19,699,732
 Total investments	 1,188,657,392	 1,073,927,840
Receivables		
Dividends	1,823,910	2,064,541
Employer contributions	37,122,626	68,672,148
Other	514,748	281,019
 Total receivables	 39,461,284	 71,017,708
 Total assets and net assets available for benefits	 \$ 1,228,118,676	 \$ 1,144,945,548

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, 2006 and 2005**

	2006	2005
Additions		
Net appreciation (depreciation) in fair value of investments	\$ (10,580,685)	\$ 148,690,958
Interest income	1,563,779	1,062,718
Dividend income	49,145,837	29,331,629
Total investment income	40,128,931	179,085,305
Contributions		
Participants	112,987,574	107,449,382
Employer qualified non-elective contribution	171,651	162,209
Employer	37,151,212	68,542,648
Total contributions	150,310,437	176,154,239
Total additions	190,439,368	355,239,544
Deductions		
Benefits paid to participants	(104,257,131)	(72,650,163)
Transfers, net	(2,168,137)	(25,940,087)
Corrective distributions	(49,591)	1,724,879
Administrative expenses	(791,381)	(682,633)
Total deductions	(107,266,240)	(97,548,004)
Increase in net assets	83,173,128	257,691,540
Net Assets Available for Benefits		
Beginning of year	1,144,945,548	877,254,008
End of year	\$ 1,228,118,676	\$ 1,144,945,548

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

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The First American Corporation

401(k) Savings Plan

Notes to Financial Statements

December 31, 2006 and 2005

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 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 \$37,122,626 and \$68,672,148 for the years ended December 31, 2006 and 2005, respectively. The 2006 and 2005 amounts were paid in the form of cash contributions and invested based on each eligible participant's investment election under the Plan. 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 twenty-five 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.

Participant account activity may include a participant's 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.

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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 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 qualified 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 Administrative Plan 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. Loans are subject to a loan initiation fee and a quarterly maintenance fee.

Loan terms are determined based on the provisions established by the Administrative Plan Committee. 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 Plan Committee. Loans are fully amortizing and paid back through principal and interest via payroll deduction or other method as determined by the Administrative Plan Committee if payroll deduction is not available to the participant. A participant may fully repay a loan at any time without penalty, however partial prepayments are not permitted.

Transfers

During 2006, net assets transferred out of the Plan were \$2,168,137. 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. The CIG employees 2005 Profit Match contributions and accrued dividend on First American stock (a total of \$2,126,377) were allocated to the Plan and subsequently transferred to the First Advantage Corporation 401(k) Savings Plan during 2006.

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, 2006 and 2005**

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:

	2006	2005
Mutual funds		
Davis Funds, NY Venture Fund, Inc. Class A	\$ 98,616,800	\$ 71,994,201
* Fidelity Balanced Fund	83,150,877	62,890,470
* Fidelity Low-Priced Stock Fund	82,499,973	80,764,570
* Fidelity Diversified International Fund	106,428,977	71,152,913
* Fidelity Retirement Money Market Portfolio	87,569,506	74,791,225
* Fidelity Large-Cap Stock Fund	66,040,539	51,106,659
Lord Abbett Small-Cap Value Fund Class Y	67,991,824	32,957,300
Common stock		
* The First American Corporation	411,522,822	510,475,814

* Denotes party-in-interest

Approximately 35% of the Plan's investments are invested in common stock of the Company.

Table of Contents**The First American Corporation****401(k) Savings Plan****Notes to Financial Statements****December 31, 2006 and 2005**

During 2006 and 2005, the Plan's investments, including gains and losses on investments bought and sold, as well as held during the year, appreciated or depreciated in value by \$(10,580,685) and \$148,690,959, respectively, as follows:

	2006	2005
Mutual funds	\$ 40,403,249	\$ 22,145,401
The First American Corporation common stock	(51,750,406)	126,476,706
Other common stock	766,472	68,852
	\$ (10,580,685)	\$ 148,690,959

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.

Short Term Bond Fund

Short term bond funds invest in all types of bonds, including U.S. Government, corporate, mortgage and foreign. The Plan's short term bond fund invests mainly in short and intermediate-maturity bonds. The objective of a short term bond fund is to provide maximum total return, consistent with preservation of capital and prudent investment management.

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.

Target Date Funds

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Target date funds allow investors to select the fund that best matches their expected retirement year. The funds invest in a diversified portfolio of other mutual funds to provide moderate asset allocation. The allocation strategy is based on the number of years until the respective target date and gradually becomes more conservative as it approaches the target date. The objective is to provide high total returns until the retirement date, and thereafter, the goal is to seek high current income with a secondary goal of capital appreciation.

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December 31, 2006 and 2005

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. The Plan's 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

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.

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.

Mid Cap Equity Fund

Mid cap funds invest primarily in common stocks of companies with mid and small market capitalizations that the investment manager believes have more growth potential than other companies with similar market capitalization. The objective is to seek maximum 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 Index Fund

An international index fund builds its portfolio by buying a large proportion of stocks included in a particular international index; therefore, reproducing the performance of an entire section of the market. The objective is to provide investment results that correspond to the total returns of foreign stock markets.

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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 RELS 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.

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 \$305,922 and \$145,861 for the years ended December 31, 2006 and 2005, respectively.

The Plan held Company Stock with fair values of \$411,522,822 and \$510,475,814 at December 31, 2006 and 2005, respectively. At December 31, 2006 and 2005, 10,116,096 and 11,268,782 shares of common stock are included in First American stock, respectively. During 2006, the Plan made purchases and sales of First American stock totaling \$30,059,499 and \$85,185,704 respectively. During 2005, the Plan made purchases and sales of First American stock totaling \$84,164,923 and \$80,041,866, 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, 2006, the Plan has not yet completed the non-discrimination tests. However, preliminary results indicate the Plan will not completely satisfy the tests. The Company's anticipated corrective action will be to return excess contributions and related investment earnings to affected participants by December 31, 2007, however, the Company has not yet formalized this determination. For the Plan year ended December 31, 2005, the Plan did not completely satisfy the non-discrimination tests and, in December 2006, took corrective action by allocating a Qualified Non-Elective Contribution in the amount of \$171,651 as opposed to distributing 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.

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Notes to Financial Statements

December 31, 2006 and 2005

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.

8. Inactive Accounts

Net assets available for plan benefits as of December 31, 2006 and 2005, included approximately \$197,819,039 and \$195,208,498, 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 2006 and 2005, the plan Administrative Plan 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.

Effective January 1, 2007, a distribution to a non-spouse beneficiary may be in the form of a rollover should the beneficiary elect to roll over to an individual retirement plan.

In response to Hurricane Katrina, a Qualified Individual was permitted to receive a Katrina Distribution from the Plan between October 6, 2005 and January 1, 2007. In addition, the loan limit to a Qualified Individual, made between October 6,

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2005 and January 1, 2007, was increased to \$100,000 and up to 100% of the account balance. Loan repayments on Qualified Individuals were also suspended until after December 31, 2006.

10. Recent Accounting Pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value within generally accepted accounting principles (GAAP), and expands disclosure requirements regarding fair value measurements. Although SFAS 157 does not require any new fair value measurements, its application may, in certain instances, change current practice. Where applicable, SFAS 157 simplifies and codifies fair value related guidance previously issued within GAAP. The provisions for SFAS 157 are effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently assessing the impact of adopting SFAS 157 on the Plan's financial statements.

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EIN: 95-1068610 PN: 003

Schedule H, Line 4i: Schedule of Assets (Held at End of Year) as of December 31, 2006

(a)	(b)	(c)	(d)	(e)
Identity of Issue, Borrower,		Description of Investment, Including Maturity Date, Rate of Interest, Collateral,		
Lessor or Similar Party		Par or Maturity Value	Cost**	Current Value
Davis Funds, NY Venture Fund, Inc. Class A		Registered Investment Company	N/A	\$98,616,800
Vanguard Explorer Fund Admiral Class		Registered Investment Company	N/A	34,621,714
Vanguard Strategic Equity Fund		Registered Investment Company	N/A	6,414,121
Pimco Low Duration Inst CL Fund		Registered Investment Company	N/A	1,688,961
Lord Abbett Small-Cap Value Fund Class Y		Registered Investment Company	N/A	67,991,824
Spartan International Index Fund		Registered Investment Company	N/A	5,047,634
* The First American Corporation 10,116,096 shares of common stock		Common Stock	N/A	411,522,822
* Fidelity Balanced Fund		Registered Investment Company	N/A	83,150,877
* Fidelity Low-Priced Stock Fund		Registered Investment Company	N/A	82,499,973
* Fidelity Diversified International Fund		Registered Investment Company	N/A	106,428,977
* Fidelity Large-Cap Stock Fund		Registered Investment Company	N/A	66,040,539
* Fidelity Retirement Money Market Portfolio		Registered Investment Company	N/A	87,569,506
* Fidelity US Bond Index Fund		Registered Investment Company	N/A	52,253,096
* Fidelity US Equity Index Pool		Commingled Pool	N/A	27,615,307
* Fidelity Freedom Income Fund		Registered Investment Company	N/A	1,877,533
* Fidelity Freedom 2000 Fund		Registered Investment Company	N/A	148,792
* Fidelity Freedom 2005 Fund		Registered Investment Company	N/A	459,387
* Fidelity Freedom 2010 Fund		Registered Investment Company	N/A	3,161,818
* Fidelity Freedom 2015 Fund		Registered Investment Company	N/A	4,138,505
* Fidelity Freedom 2020 Fund		Registered Investment Company	N/A	3,679,541
* Fidelity Freedom 2025 Fund		Registered Investment Company	N/A	3,658,688
* Fidelity Freedom 2030 Fund		Registered Investment Company	N/A	3,430,920
* Fidelity Freedom 2035 Fund		Registered Investment Company	N/A	2,971,749
* Fidelity Freedom 2040 Fund		Registered Investment Company	N/A	2,068,338
* Fidelity Freedom 2045 Fund		Registered Investment Company	N/A	579,834
* Fidelity Freedom 2050 Fund		Registered Investment Company	N/A	109,525
Wells Fargo & Company 166,850 shares of common stock and \$215,318 in money market fund		Registered Investment Company and Common Stock	N/A	6,183,842
* Fidelity Group Stock Purchase Account		Registered Investment Company		49,571
* Loans to participants		Maturities through July 2022 with interest from 5 percent to 11.5 percent	N/A	24,677,198
				\$1,188,657,392

* 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

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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, 2007

By: /s/ Frank V. McMahon III
Frank V. McMahon III
Member of the above-described Committee

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