

Fidelity National Title Group, Inc.  
Form 10-Q  
November 09, 2006

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**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, 2006**  
**OR**

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

**Commission File Number 1-32630**  
**FIDELITY NATIONAL TITLE GROUP, INC.**  
(Exact name of registrant as specified in its charter)

Delaware

16-1725106

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification Number)

601 Riverside Avenue, Jacksonville, Florida

32204

(Address of principal executive offices)

(Zip Code)

(904) 854-8100

(Registrant's telephone number, including area code)

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one)  
Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

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

As of September 30, 2006, there were 31,147,357 shares of Class A common stock and 143,176,041 shares of Class B common stock outstanding.

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## Part I: FINANCIAL INFORMATION

## Item 1. Condensed Financial Statements

## FIDELITY NATIONAL TITLE GROUP, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	<b>September 30, 2006</b>	<b>December 31, 2005</b>
	<b>(Unaudited)</b>	
<b>ASSETS</b>		
Investments:		
Fixed maturity securities available for sale, at fair value, at September 30, 2006 includes \$289,770 and \$263,660 of pledged fixed maturities related to secured trust deposits and the securities lending program, respectively, and at December 31, 2005 includes \$305,717 and \$116,781 of pledged fixed maturity securities related to secured trust deposits and the securities lending program, respectively	\$ 2,529,626	\$ 2,457,632
Equity securities, at fair value, at September 30, 2006 and December 31, 2005 includes \$0 and \$3,401, respectively, of pledged equity securities related to the securities lending program	220,823	176,987
Other long-term investments	54,926	21,037
Short-term investments, at fair value, at September 30, 2006 and December 31, 2005 includes \$368,159 and \$350,256, respectively, of pledged short-term investments related to secured trust deposits	577,050	645,082
Total investments	3,382,425	3,300,738
Cash and cash equivalents at September 30, 2006 includes \$239,567 and \$271,780 of pledged cash related to secured trust deposits and the securities lending program, respectively, and at December 31, 2005 includes \$234,709 and \$124,339 of pledged cash related to secured trust deposits and the securities lending program, respectively	640,521	462,157
Trade receivables, net of allowance of \$12,178 at September 30, 2006 and \$13,583 at December 31, 2005	182,147	178,998
Notes receivable, net of allowance of \$741 at September 30, 2006 and \$1,466 at December 31, 2005, including notes from related parties of \$19,000 at September 30, 2006 and December 31, 2005	25,884	31,749
Goodwill	1,101,760	1,051,526
Prepaid expenses and other assets	362,487	377,049
Title plants	320,549	308,675
Property and equipment, net	140,771	156,952
Due from FNF		32,689
	<b>\$ 6,156,544</b>	<b>\$ 5,900,533</b>
<b>LIABILITIES AND EQUITY</b>		
Liabilities:		
Accounts payable and accrued liabilities at September 30, 2006 and December 31, 2005 include \$271,780 and \$124,339, respectively, of security	\$ 840,728	\$ 790,598

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loans related to the securities lending program		
Notes payable, including \$6,640 and \$497,800 of notes payable to FNF at September 30, 2006 and December 31, 2005, respectively	572,958	603,262
Reserve for claim losses	1,146,669	1,063,857
Secured trust deposits	875,317	882,602
Deferred tax liabilities	51,646	75,839
Due to FNF and FIS	27,739	
	3,515,057	3,416,158
Minority interests	5,518	4,338
Stockholders' equity:		
Common stock, Class A, \$0.0001 par value; authorized 300,000,000 shares as of September 30, 2006 and December 31, 2005; issued 31,147,357 shares as of September 30, 2006 and December 31, 2005	3	3
Common stock, Class B, \$0.0001 par value; authorized 300,000,000 shares as of September 30, 2006 and December 31, 2005; issued 143,176,041 shares as of September 30, 2006 and December 31, 2005	14	14
Additional paid-in capital	2,486,220	2,492,312
Retained earnings	230,354	82,771
	2,716,591	2,575,100
Accumulated other comprehensive loss	(80,622)	(78,892)
Unearned compensation		(16,171)
	2,635,969	2,480,037
	\$ 6,156,544	\$ 5,900,533

See Notes to Condensed Financial Statements

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**FIDELITY NATIONAL TITLE GROUP, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED AND COMBINED STATEMENTS OF EARNINGS**  
(In thousands, except per share data)

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>(Unaudited)</b>		<b>(Unaudited)</b>	
<b>REVENUE:</b>				
Direct title insurance premiums	\$ 461,340	\$ 626,178	\$ 1,413,641	\$ 1,643,574
Agency title insurance premiums	721,801	779,117	2,058,935	2,083,317
Escrow and other title related fees	269,188	324,910	810,845	868,375
Interest and investment income	41,261	28,994	115,680	71,149
Realized gains and losses, net	1,478	3,583	22,091	25,505
Other income	11,964	11,461	34,393	31,481
<b>Total revenue</b>	<b>1,507,032</b>	<b>1,774,243</b>	<b>4,455,585</b>	<b>4,723,401</b>
<b>EXPENSES:</b>				
Personnel costs	436,064	511,325	1,354,720	1,415,928
Other operating expenses	223,359	246,109	666,587	693,927
Agent commissions	555,010	612,139	1,587,547	1,617,260
Depreciation and amortization	29,881	23,818	83,312	73,207
Provision for claim losses	88,706	103,612	260,444	254,289
Interest expense	12,762	4,669	36,462	5,393
<b>Total expenses</b>	<b>1,345,782</b>	<b>1,501,672</b>	<b>3,989,072</b>	<b>4,060,004</b>
Earnings before income taxes and minority interest	161,250	272,571	466,513	663,397
Income tax expense	57,241	102,137	165,610	248,774
Earnings before minority interest	104,009	170,434	300,903	414,623
Minority interest	610	700	1,889	1,992
<b>Net earnings</b>	<b>\$ 103,399</b>	<b>\$ 169,734</b>	<b>\$ 299,014</b>	<b>\$ 412,631</b>
Basic net earnings per share	\$ 0.60		\$ 1.72	
Weighted average shares outstanding, basic basis	173,475		173,475	
Diluted net earnings per share	\$ 0.60		\$ 1.72	
Weighted average shares outstanding, diluted basis	173,643		173,648	
Pro forma basic and diluted earnings per share		\$ 0.98		\$ 2.38
		173,520		173,520

Pro forma weighted average shares outstanding,  
basic and diluted

Cash dividends paid per share	\$	0.29	\$	0.58
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See Notes to Condensed Financial Statements

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FIDELITY NATIONAL TITLE GROUP, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED AND COMBINED STATEMENTS OF COMPREHENSIVE EARNINGS  
 (In thousands)

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>(Unaudited)</b>		<b>(Unaudited)</b>	
Net earnings	\$ 103,399	\$ 169,734	\$ 299,014	\$ 412,631
Other comprehensive (loss) earnings:				
Unrealized gain (loss) on investments, net (1)	28,181	(20,105)	(1,730)	(29,807)
Other comprehensive (loss) gain	28,181	(20,105)	(1,730)	(29,807)
Comprehensive earnings	\$ 131,580	\$ 149,629	\$ 297,284	\$ 382,824

(1) Net of income tax (benefit) expense of \$15,510 and \$(12,063) for the three months ended September 30, 2006 and 2005, respectively, and \$(952) and \$(17,884) for the nine months ended September 30, 2006 and 2005, respectively.

See Notes to Condensed Financial Statements



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FIDELITY NATIONAL TITLE GROUP, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENT OF EQUITY

(In thousands)

(Unaudited)

	Common Stock				Additional Paid-In Capital	Accumulated Other			Total
	Class A Shares	Class B Shares	Class A Amount	Class B Amount		Retained Earnings	Comprehensive Earnings(Loss)	Unearned Compensation	
Balance, December 31, 2005	31,147	\$ 3	143,176	\$ 14	\$ 2,492,312	\$ 82,771	\$ (78,892)	\$ (16,171)	\$ 2,480,037
Other comprehensive loss unrealized loss on investments net of tax							(1,730)		(1,730)
Stock-based compensation					10,079				10,079
Adoption of SFAS 123R					(16,171)			16,171	
Dividends paid to Class A shareholders						(26,868)			(26,868)
Dividends paid to FNF						(124,563)			(124,563)
Net earnings						299,014			299,014
 Balance, September 30, 2006	 31,147	 \$ 3	 143,176	 \$ 14	 \$ 2,486,220	 \$ 230,354	 \$ (80,622)		 \$ 2,635,969

See Notes to Condensed Financial Statements

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FIDELITY NATIONAL TITLE GROUP, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS  
 (In thousands)

	<b>Nine months ended</b>	
	<b>September 30,</b>	
	<b>2006</b>	<b>2005</b>
	<b>(Unaudited)</b>	
Cash flows from operating activities:		
Net earnings	\$ 299,014	\$ 412,631
Reconciliation of net earnings to net cash provided by operating activities:		
Depreciation and amortization	83,312	73,207
Net increase in reserve for claim losses	82,812	43,925
Gain on sales of assets	(22,091)	(25,505)
Stock-based compensation cost	10,079	8,942
Minority interest	1,889	1,992
Change in assets and liabilities, net of effects from acquisitions:		
Net (increase) decrease in secured trust deposits	(9,002)	1,005
Net increase in trade receivables	(3,149)	(63,312)
Net decrease (increase) in prepaid expenses and other assets	30,248	(3,182)
Net (decrease) increase in accounts payable and accrued liabilities	(37,697)	8,734
Net (decrease) increase in income taxes	(15,637)	145,335
Net cash provided by operating activities	419,778	603,772
Cash flows from investing activities:		
Proceeds from sales of investment securities available for sale	1,238,415	1,883,026
Proceeds from maturities of investment securities available for sale	210,569	262,008
Proceeds from sales of assets	3,890	40,831
Cash received as collateral on loaned securities, net	(5,097)	3,026
Collections of notes receivable	26,177	9,180
Additions to title plants	(13,750)	(4,065)
Additions to property and equipment	(39,415)	(69,925)
Additions to capitalized software	(17,478)	(4,316)
Purchases of investment securities available for sale	(1,459,185)	(2,154,842)
Net proceeds of short-term investment securities	68,132	(232,280)
Additions to notes receivable	(19,438)	(7,868)
Acquisitions of businesses, net of cash acquired	(57,015)	(135,438)
Net cash used in investing activities	(64,195)	(410,663)
Cash flows from financing activities:		
Borrowings		650,174
Debt service payments	(30,646)	(18,115)
Dividends paid to FNF	(124,563)	(807,575)
Dividends paid to Class A shareholders	(26,868)	
Net distribution to/ contribution from FNF		135,722
Net cash used in financing activities	(182,077)	(39,794)

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Net increase in cash and cash equivalents, excluding pledged cash related to secured trust deposits	173,506	153,315
Cash and cash equivalents, excluding pledged cash related to secured trust deposits at beginning of period	227,448	73,214
Cash and cash equivalents, excluding pledged cash related to secured trust deposits at end of period	\$ 400,954	\$ 226,529
Supplemental cash flow information:		
Interest paid	\$ 44,285	\$ 2,132

See Notes to Condensed Financial Statements

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FIDELITY NATIONAL TITLE GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Financial Statements

**Note A Basis of Financial Statements**

The unaudited condensed consolidated and combined financial information included in this report includes the accounts of Fidelity National Title Group, Inc. ( FNT or the Company ) and subsidiaries and has been prepared in accordance with generally accepted accounting principles and the instructions to Form 10-Q and Article 10 of Regulation S-X. All adjustments considered necessary for a fair presentation have been included. This report should be read in conjunction with the Company s consolidated and combined financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2005.

The Company made a reclassification adjustment to the Consolidated Statements of Income, included within this Quarterly Report on Form 10-Q, with regard to the presentation of interest and investment income and other operating expenses. This adjustment was necessary to properly reflect certain credits earned as a reduction of other operating expenses as opposed to an increase in investment income. The adjustment resulted in a reduction of interest and investment income of \$2.6 million for the quarter ended September 30, 2005 and \$10.3 million and \$5.9 million for the nine month periods ended September 30, 2006 and 2005, respectively, and a corresponding reduction of other operating expenses. This adjustment had no effect on net income.

***Description of Business***

FNT, through its principal subsidiaries, is one of the largest title insurance companies in the United States, with an approximate 29.0% national market share in 2005. The Company s title insurance underwriters Fidelity National Title, Chicago Title, Ticor Title, Security Union Title and Alamo Title together issue all of the Company s title insurance policies in 49 states, the District of Columbia, Guam, Puerto Rico, the U.S. Virgin Islands, and in Canada and Mexico. The Company operates its business through a single segment, title and escrow, and does not generate significant revenue outside the United States. Although the Company earns title premiums on residential and commercial sale and refinance real estate transactions, the Company does not separately track its revenues from these various types of transactions.

Prior to October 17, 2005, FNT, representing the title insurance segment of Fidelity National Financial, Inc. ( FNF ), was a wholly-owned subsidiary of FNF. FNF subsequently contributed to FNT all of the legal entities that are consolidated and combined for presentation in FNT s financial statements, other than any entities acquired after October 17, 2005. On October 17, 2005, FNF distributed a dividend to its stockholders of record as of October 6, 2005 which resulted in a pro rata distribution of 17.5% (31.1 million shares) of its interest in FNT. FNF stockholders received 0.175 shares of FNT Class A common stock for each share of FNF common stock held on the record date. From October 17, 2005, through October 24, 2006, FNF beneficially owned 100% of the FNT Class B common stock representing 82.1% of the Company s outstanding common stock (143.2 million shares). FNT Class B common stock had ten votes per share, while FNT Class A common stock has one vote per share. As a result, FNF controlled 97.9% of the voting rights of FNT.

On October 24, 2006, FNF transferred certain assets to FNT in return for the issuance of 45,265,956 shares of FNT Class A common stock to FNF. FNF then converted its Class B holdings to Class A shares and distributed to its shareholders all of its shares of FNT common stock. FNT is now a stand alone public company. (See Recent Developments below.)

***Principles of Consolidation and Combination and Basis of Presentation***

Prior to October 17, 2005, the accompanying Condensed Combined Financial Statements included those assets, liabilities, revenues, and expenses directly attributable to the Company s operations and allocations of certain FNF corporate assets, liabilities and expenses to the Company. These amounts were allocated to the Company on a basis that was considered by management to reflect most fairly or reasonably the utilization of services provided to, or the benefit obtained by, the Company. Management believes the methods used to allocate these amounts were reasonable. Beginning on October 17, 2005, the entities that made up the Company as of that date were consolidated under a holding company structure and the accompanying Condensed Consolidated Financial Statements reflect activity of that company and its subsidiaries subsequent to October 17, 2005. All significant intercompany profits, transactions and balances were eliminated in consolidation and combination. The financial information included



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herein does not necessarily reflect what the financial position and results of operations of the Company would have been had it operated as a stand alone entity during the periods prior to October 17, 2005. The Company's investments in non-majority-owned partnerships and affiliates are accounted for using the equity method. The Company records minority interest liabilities related to minority shareholders' interest in consolidated affiliates. All dollars presented herein are in thousands of dollars unless otherwise noted.

**Earnings Per Share and Unaudited Proforma Net Earnings Per Share**

Basic earnings per share is computed by dividing net earnings available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by dividing net earnings available to common stockholders by the weighted average number of shares outstanding plus the impact of assumed conversions of potentially dilutive common stock equivalents. The Company has granted certain shares of restricted stock, which have been treated as common share equivalents for purposes of calculating diluted earnings per share.

The following table presents the computation of basic and diluted earnings per share for the three month and nine month periods ended September 30, 2006 (in thousands except per share data). Prior to October 17, 2005, the historical financial statements of the Company were combined and thus presentation of earnings per share for the three month and nine month periods ended September 30, 2005 was computed on a pro forma basis, using the number of outstanding shares of FNF common stock as of a date prior to the 2005 distribution of FNT stock by FNF.

	<b>Three months ended September 30, 2006</b>	<b>Nine months ended September 30, 2006</b>
	<b>(In thousands, except per share amounts)</b>	
Basic and diluted net earnings	\$ 103,399	\$ 299,014
Weighted average shares outstanding during the year, basic basis	173,475	173,475
Plus: Common stock equivalent shares	168	173
Weighted average shares outstanding during the year, diluted basis	173,643	173,648
Basic earnings per share	\$ 0.60	\$ 1.72
Diluted earnings per share	\$ 0.60	\$ 1.72

The Company has granted options to purchase 2,246,500 shares of the Company's common stock, all of which were excluded from the computation of diluted earnings per share in the 2006 periods because they were anti-dilutive.

**Transactions with Related Parties**

The Company's financial statements reflect transactions with other businesses and operations of FNF, including those being conducted by another FNF subsidiary, Fidelity National Information Services, Inc. (FIS).

A detail of related party items included in revenues and expenses is as follows:

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	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>(In millions)</b>			
Agency title premiums earned	\$ 24.8	\$ 26.8	\$ 66.7	\$ 69.7
Rental income earned				5.0
Interest revenue		0.3	0.5	0.7
 Total revenue	 24.8	 27.1	 67.2	 75.4
 Agency title commissions	 21.8	 23.2	 58.7	 60.6
Data processing costs	20.4	16.7	55.0	41.4
Corporate services allocated	(0.8)	(9.2)	2.4	(27.5)
Title insurance information expense	5.3	7.0	15.3	18.1
Other real-estate related information	3.6	4.9	8.5	10.8
Software expense	2.1	2.1	7.0	5.7
Rental expense	0.7	0.8	3.0	2.5
License and cost sharing agreements	2.9	3.4	8.0	9.1