First American Financial Corp
Form 10-Q
October 26, 2017

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, 2017

OR

1 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)

Incorporated in Delaware	26-1911571
(State or other jurisdiction of	(I.R.S. Employer
incorporation or organization)	Identification No.)
1 First American Way, Santa Ana, California	92707-5913
(Address of principal executive offices)	(Zip Code)

(714) 250-3000

(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 1

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 1

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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
Emerging growth company		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. 1

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes 1 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 1 No 1

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 20, 2017, there were 110,817,359 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 2 through 5 of Part II have been omitted because they are not applicable with respect to the current reporting period.

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THIS QUARTERLY REPORT ON FORM 10-Q CONTAINS 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 CAN BE IDENTIFIED BY THE FACT THAT THEY DO NOT RELATE STRICTLY TO HISTORICAL OR CURRENT FACTS AND MAY CONTAIN THE WORDS “BELIEVE,” “ANTICIPATE,” “EXPECT,” “INTEND,” “PLAN,” “PREDICT,” “ESTIMATE,” “PROJECT,” “WILL BE,” “WILL CONTINUE,” “WILL LIKELY RESU OTHER SIMILAR WORDS AND PHRASES OR FUTURE OR CONDITIONAL VERBS SUCH AS “WILL,” “MAY,” “MIGHT,” “SHOULD,” “WOULD,” OR “COULD.” THESE FORWARD-LOOKING STATEMENTS INCLUDE, WITHOUT LIMITATION, STATEMENTS REGARDING FUTURE OPERATIONS, PERFORMANCE, FINANCIAL CONDITION, PROSPECTS, PLANS AND STRATEGIES. THESE FORWARD-LOOKING STATEMENTS ARE BASED ON CURRENT EXPECTATIONS AND ASSUMPTIONS THAT MAY PROVE TO BE INCORRECT.

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, WITHOUT LIMITATION:

- 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 LAWS AND 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;
- USE OF SOCIAL MEDIA BY THE COMPANY AND OTHER PARTIES;
- REGULATION OF TITLE INSURANCE RATES;
- LIMITATIONS ON ACCESS TO PUBLIC RECORDS AND OTHER DATA;
- CHANGES IN RELATIONSHIPS WITH LARGE MORTGAGE LENDERS AND GOVERNMENT-SPONSORED ENTERPRISES;
- 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;
- 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 MANAGEMENT FRAMEWORK;
- SYSTEMS DAMAGE, FAILURES, INTERRUPTIONS AND INTRUSIONS, OR UNAUTHORIZED DATA DISCLOSURES;
- ERRORS AND FRAUD INVOLVING THE TRANSFER OF FUNDS;
- THE COMPANY’S USE OF A GLOBAL WORKFORCE;
- INABILITY OF THE COMPANY’S SUBSIDIARIES TO PAY DIVIDENDS OR REPAY FUNDS;
- INABILITY TO REALIZE THE BENEFITS OF, AND CHALLENGES ARISING FROM, THE COMPANY’S ACQUISITION STRATEGY; AND

- OTHER FACTORS DESCRIBED IN THIS QUARTERLY REPORT ON FORM 10-Q, INCLUDING UNDER THE CAPTION “RISK FACTORS” IN ITEM 1A OF PART II.

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, 2017	December 31, 2016
Assets		
Cash and cash equivalents	$ 1,141,915	$1,006,138
Accounts and accrued income receivable, net	341,395	299,799
Income taxes receivable	11,102	67,970
Investments:		
Deposits with banks	20,940	21,222
Debt securities, includes pledged securities of $100,681 and $110,647	4,803,484	4,553,363
Equity securities	446,185	404,085
Other investments	120,514	162,029
	5,391,123	5,140,699
Property and equipment, net	438,136	434,050
Title plants and other indexes	566,599	564,309
Deferred income taxes	20,037	20,037
Goodwill	1,145,464	1,017,417
Other intangible assets, net	75,126	78,898
Other assets	216,150	202,460
	$ 9,347,047	$8,831,777
Liabilities and Equity		
Deposits	$ 2,965,426	$2,779,478
Accounts payable and accrued liabilities	741,569	793,955
Deferred revenue	250,917	228,905
Reserve for known and incurred but not reported claims	1,021,648	1,025,863
Income taxes payable	92,841	10,376
Deferred income taxes	242,158	242,158
Notes and contracts payable	734,091	736,693
	6,048,650	5,817,428
Commitments and contingencies (Note 13)		
Stockholders' equity:		
Preferred stock, $0.00001 par value; Authorized—500 shares; Outstanding—none	—	—
Common stock, $0.00001 par value; Authorized—300,000 shares; Outstanding—110,817 shares and 109,944 shares	1	1

Additional paid-in capital	2,226,691	2,191,756
Retained earnings	1,128,981	1,046,822
Accumulated other comprehensive loss	(61,779)	(230,400)
Total stockholders' equity	3,293,894	3,008,179
Noncontrolling interests	4,503	6,170
Total equity	3,298,397	3,014,349
	$ 9,347,047	$8,831,777

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)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenues				
Direct premiums and escrow fees	$651,104	$649,726	$1,819,193	$1,775,615
Agent premiums	629,186	625,953	1,757,796	1,653,990
Information and other	201,819	188,727	586,179	526,575
Net investment income	44,460	34,422	117,109	92,717
Net realized investment (losses) gains	(7,001)	9,516	10,763	22,692
	1,519,568	1,508,344	4,291,040	4,071,589
Expenses				
Personnel costs	599,380	438,692	1,458,928	1,239,129
Premiums retained by agents	497,911	495,130	1,387,608	1,303,838
Other operating expenses	218,959	219,959	649,182	622,995
Provision for policy losses and other claims	120,349	137,015	333,695	366,473
Depreciation and amortization	36,000	24,491	96,292	70,905
Premium taxes	19,900	18,288	52,527	48,692
Interest	9,107	7,838	26,812	23,427
	1,501,606	1,341,413	4,005,044	3,675,459
Income before income taxes	17,962	166,931	285,996	396,130
Income tax (benefit) expense	(3,224)	59,539	84,846	133,615
Net income	21,186	107,392	201,150	262,515
Less: Net (loss) income attributable to noncontrolling interests	(197)	72	(772)	545
Net income attributable to the Company	$21,383	$107,320	$201,922	$261,970
Net income per share attributable to the Company's stockholders (Note 8):				
Basic	$0.19	$0.97	$1.81	$2.37
Diluted	$0.19	$0.96	$1.80	$2.36
Cash dividends declared per share	$0.38	$0.34	$1.06	$0.86
Weighted-average common shares outstanding (Note 8):				
Basic	111,799	110,571	111,578	110,423
Diluted	112,575	111,251	112,254	111,006

See notes to condensed consolidated financial statements.

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FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

Condensed Consolidated Statements of Comprehensive Income

(in thousands)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income	$21,186	$107,392	$201,150	$262,515
Other comprehensive income (loss), net of tax:				
Unrealized gains on securities	13,929	2,579	52,014	52,087
Foreign currency translation adjustment	11,415	(3,459)	23,558	3,066
Pension benefit adjustment	85,891	3,602	93,061	10,819
Total other comprehensive income, net of tax	111,235	2,722	168,633	65,972
Comprehensive income	132,421	110,114	369,783	328,487
Less: Comprehensive (loss) income attributable to noncontrolling interests	(192)	77	(760)	566
Comprehensive income attributable to the Company	$132,613	$110,037	$370,543	$327,921

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 December 31, 2016	109,944	$1	$2,191,756	$1,046,822	$(230,400)	$3,008,179	$6,170	$3,014,349
Net income (loss) for nine months ended September 30, 2017	—	—	—	201,922	—	201,922	(772)	201,150
Dividends on common shares	—	—	—	(117,174)	—	(117,174)	—	(117,174)
Shares issued in connection with share-based compensation plans	873	—	3,784	(2,589)	—	1,195	—	1,195
Share-based compensation	—	—	31,196	—	—	31,196	—	31,196
Net activity related to noncontrolling interests	—	—	(45)	—	—	(45)	(907)	(952)
Other comprehensive income (Note 12)	—	—	—	—	168,621	168,621	12	168,633
Balance at September 30, 2017	110,817	$1	$2,226,691	$1,128,981	$(61,779)	$3,293,894	$4,503	$3,298,397

See notes to condensed consolidated financial statements.

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

Condensed Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

	Nine Months Ended September 30,	
	2017	2016
Cash flows from operating activities:		
Net income	$201,150	$262,515
Adjustments to reconcile net income to cash provided by operating activities:		
Provision for policy losses and other claims	333,695	366,473
Depreciation and amortization	96,292	70,905
Amortization of premiums and accretion of discounts on debt securities, net	25,013	20,267
Excess tax benefits from share-based compensation	—	(3,197)
Net realized investment gains	(10,763)	(22,692)
Share-based compensation	31,196	28,096
Equity in earnings of affiliates, net	(4,550)	(5,771)
Dividends from equity method investments	9,593	7,953
Changes in assets and liabilities excluding effects of acquisitions and noncash transactions:		
Claims paid, including assets acquired, net of recoveries	(351,397)	(351,349)
Net change in income tax accounts	34,462	20,765
Increase in accounts and accrued income receivable	(11,907)	(43,454)
Increase (decrease) in accounts payable and accrued liabilities	95,383	(99,777)
Increase in deferred revenue	20,313	23,342
Other, net	(12,953)	(21,857)
Cash provided by operating activities	455,527	252,219
Cash flows from investing activities:		
Net cash effect of acquisitions/dispositions	(82,993)	(73,173)
Net decrease in deposits with banks	1,171	608
Purchases of debt and equity securities	(1,276,401)	(1,490,824)
Proceeds from sales of debt and equity securities	599,365	494,717
Proceeds from maturities of debt securities	457,334	744,411
Net change in other investments	2,555	2,798
Capital expenditures	(103,064)	(103,735)
Proceeds from sales of property and equipment	9,882	9,218
Cash used for investing activities	(392,151)	(415,980)
Cash flows from financing activities:		
Net change in deposits	185,948	519,113
Net proceeds from issuance of debt	—	160,000
Repayment of debt	(4,128)	(3,745)
Net activity related to noncontrolling interests	(964)	(1,004)
Excess tax benefits from share-based compensation	—	3,197

Net proceeds (payments) in connection with share-based compensation plans	1,195	(754)
Purchase of Company shares	—	(454)
Cash dividends	(117,174)	(94,202)
Cash provided by financing activities	64,877	582,151
Effect of exchange rate changes on cash	7,524	(2,399)
Net increase in cash and cash equivalents	135,777	415,991
Cash and cash equivalents—Beginning of period	1,006,138	1,027,321
Cash and cash equivalents—End of period	$1,141,915	$1,443,312
Supplemental information:		
Cash paid during the period for:		
Interest	$24,619	$21,097
Premium taxes	$55,233	$54,151
Income taxes, less refunds of $52,828 and $2,731	$50,264	$112,401

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

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, 2016. 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.

Out-of-Period Adjustments

During the third quarter of 2017, the Company identified certain title plant assets within its title insurance and services segment that should have been previously written off, and certain title plant imaging assets that were misclassified as title plant assets. To correct for these errors, the Company recorded adjustments to net realized investment gains, depreciation and amortization and title plants and other indexes. The impact of these adjustments included an increase to depreciation and amortization of $4.7 million, a decrease to net realized investment gains of $1.8 million and a decrease to title plant and other indexes of $6.5 million. In addition, during the third quarter of 2017, the Company recorded adjustments to correct for errors in recording certain personnel costs within its title insurance and services segment. The impact of these adjustments included an increase to personnel costs of $9.0 million, a decrease to other assets of $8.5 million and an increase in accounts payable and accrued liabilities of $0.5 million.

The Company does not consider these adjustments to be material, individually or in the aggregate, to either the current period or any previously issued condensed consolidated financial statements.

Recently Adopted Accounting Pronouncements

In October 2016, the Financial Accounting Standards Board ("FASB") issued updated guidance to amend the consolidation guidance on how a reporting entity that is the single decision maker of a variable interest entity should treat indirect interests in the entity held through related parties that are under common control with the reporting entity when determining whether it is the primary beneficiary of that variable interest entity. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2016. The adoption of this guidance had no impact on the Company's condensed consolidated financial statements.

In March 2016, the FASB issued updated guidance intended to simplify and improve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of such awards as either equity or liabilities and classification on the statement of cash flows. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2016. While the adoption of this guidance did have an impact on the Company's effective income tax rate for 2017, it did not have a material impact on the Company's condensed consolidated financial statements. See Note 7 Income Taxes for further discussion of the Company's effective income tax rates. Beginning in 2017, excess tax benefits from share-based compensation are presented in the condensed consolidated statements of cash flows in cash flows from operating activities within net change in income tax accounts.

In March 2016, the FASB issued updated guidance intended to simplify the accounting treatment for investments that become qualified for the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2016. The adoption of this guidance had 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)

Pending Accounting Pronouncements

In May 2017, the FASB issued updated guidance intended to reduce diversity in practice by clarifying which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. The Company does not expect the adoption of this guidance to have a material impact on its condensed consolidated financial statements.

In March 2017, the FASB issued updated guidance to amend the amortization period for certain purchased callable debt securities held at a premium to shorten the amortization period for the premium to the earliest call date. The updated guidance is intended to more closely align the amortization period of premiums and discounts to expectations incorporated in market pricing on the underlying securities, and is effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. The Company does not expect the adoption of this guidance to have a material impact on its condensed consolidated financial statements.

In March 2017, the FASB issued updated guidance intended to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost through the disaggregation of the service cost component from the other components of net benefit cost. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. The Company does not expect the adoption of this guidance to have a material impact on its condensed consolidated financial statements.

In January 2017, the FASB issued updated guidance intended to simplify how an entity tests goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Under the updated guidance, an entity will perform its goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, with the loss recognized limited to the total amount of goodwill allocated to that reporting unit. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted. The Company does not expect the adoption of this guidance to have a material impact on its condensed consolidated financial statements.

In January 2017, the FASB issued updated guidance to clarify the definition of a business with the objective of providing guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. The Company does not expect the adoption of this guidance to have a material impact on its condensed consolidated financial statements.

In November 2016, the FASB issued updated guidance intended to reduce the diversity in practice on presenting restricted cash or restricted cash equivalents in the statement of cash flows. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. The Company does not expect the adoption of this guidance to have a material impact on its condensed consolidated financial statements.

In October 2016, the FASB issued updated guidance intended to simplify and improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. The updated guidance, which eliminates the

intra-entity transfers exception, requires entities to recognize the income tax consequences of intra-entity transfers of assets, other than inventory, when the transfers occur. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. The Company does not expect the adoption of this guidance to have a material impact on its condensed consolidated financial statements.

In August 2016, the FASB issued updated guidance intended to eliminate the diversity in practice regarding the presentation and classification of certain cash receipts and cash payments in the statement of cash flows. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. The Company does not expect the adoption of this guidance to have a material impact on its condensed consolidated statements of cash flows.

FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES
Notes to Condensed Consolidated Financial Statements – (Continued)
(unaudited)

In June 2016, the FASB issued updated guidance intended to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The updated guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires the consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted. The Company is currently assessing the impact of the new guidance on its condensed consolidated financial statements.

In February 2016, the FASB issued updated guidance that requires the rights and obligations associated with leasing arrangements be reflected on the balance sheet in order to increase transparency and comparability among organizations. Under the updated guidance, lessees will be required to recognize a right-of-use asset and a liability to make lease payments and disclose key information about leasing arrangements. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. While the Company is currently evaluating the impact the new guidance will have on its condensed consolidated financial statements, the Company expects the adoption of the new guidance will result in a material increase in the assets and liabilities on its condensed consolidated balance sheets and will likely have an insignificant impact on its condensed consolidated statements of income and statements of cash flows.

In January 2016, the FASB issued updated guidance intended to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. In addition to making other targeted improvements to current guidance, the updated guidance also requires all equity investments, except those accounted for under the equity method of accounting or those that result in consolidation of the investee, to be measured at fair value with changes in the fair value recognized through net income. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted in certain circumstances. While the Company expects the adoption of this guidance to impact its condensed consolidated statements of income, the materiality of the impact will depend upon the size of, and level of volatility experienced within, the Company’s equity portfolio.

In May 2014, the FASB issued updated guidance for recognizing revenue from contracts with customers to provide a single, comprehensive revenue recognition model for all contracts with customers to improve comparability within and across industries, and across capital markets. The new revenue standard contains principles that an entity will apply to determine the measurement of revenue and the timing of recognition. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. Revenue from insurance contracts is not within the scope of this guidance. In August 2015, the FASB issued updated guidance which defers the effective date of this guidance by one year. In 2016, the FASB issued additional updates to the new guidance primarily to clarify, among other things, the implementation guidance related to principal versus agent considerations, identifying performance obligations, accounting for licenses of intellectual property, and to provide narrow-scope improvements and additional practical expedients. In February 2017, the FASB issued an additional update to the new guidance to clarify the scope of derecognition guidance for nonfinancial assets and to provide guidance for partial sales of nonfinancial assets. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption prohibited. The Company expects to adopt the new guidance under the modified retrospective approach and, except for certain disclosure requirements, does not expect the new guidance to have a material impact on its

condensed consolidated financial statements.

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 $7.9 billion and $6.8 billion at September 30, 2017 and December 31, 2016, respectively, of which $2.8 billion and $2.6 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 temporarily invested in cash and cash equivalents and debt securities, with offsetting liabilities included in deposits in the accompanying condensed consolidated balance sheets. The remaining escrow deposits were held at third-party financial institutions.

Trust assets held or managed by First American Trust, FSB totaled $3.5 billion and $3.2 billion at September 30, 2017 and December 31, 2016, respectively. 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.

FIRST AMERICAN FINANCIAL CORPORATION
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Notes to Condensed Consolidated Financial Statements – (Continued)
(unaudited)

In conducting its operations, the Company often holds customers' assets in escrow, pending completion of real estate transactions and, as a result, the Company has ongoing programs for realizing economic benefits with various financial institutions. The results from 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 each 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 $2.3 billion and $2.0 billion at September 30, 2017 and December 31, 2016, respectively. The like-kind exchange deposits are 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 returns on such proceeds.

Note 3 – Debt and Equity Securities

Investments in debt securities, classified as available-for-sale, are as follows:

(in thousands)	Amortized cost	Gross unrealized Gains	Losses	Estimated fair value
September 30, 2017				
U.S. Treasury bonds	$145,396	$1,484	$(1,427)	$145,453
Municipal bonds	1,068,611	14,546	(10,795)	1,072,362
Foreign government bonds	162,550	556	(1,457)	161,649
Governmental agency bonds	223,546	1,063	(2,891)	221,718
Governmental agency mortgage-backed securities	2,238,222	4,098	(16,400)	2,225,920
U.S. corporate debt securities	716,299	13,400	(2,771)	726,928
Foreign corporate debt securities	244,777	5,201	(524)	249,454
	$4,799,401	$40,348	$(36,265)	$4,803,484
December 31, 2016				
U.S. Treasury bonds	$155,441	$416	$(4,466)	$151,391
Municipal bonds	1,004,659	6,340	(26,666)	984,333
Foreign government bonds	141,887	600	(2,439)	140,048
Governmental agency bonds	197,343	691	(4,166)	193,868
Governmental agency mortgage-backed securities	2,187,482	2,983	(26,792)	2,163,673
U.S. corporate debt securities	675,683	8,282	(5,441)	678,524
Foreign corporate debt securities	240,526	2,490	(1,490)	241,526

$4,603,021	$21,802	$(71,460)	$4,553,363

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Investments in equity securities, classified as available-for-sale, are as follows:

(in thousands)	Cost	Gross unrealized Gains	Losses	Estimated fair value
September 30, 2017				
Preferred stocks	$19,269	$202	$(944)	$18,527
Common stocks	381,622	47,204	(1,168)	427,658
	$400,891	$47,406	$(2,112)	$446,185
December 31, 2016				
Preferred stocks	$18,926	$—	$(3,344)	$15,582
Common stocks	367,169	26,034	(4,700)	388,503
	$386,095	$26,034	$(8,044)	$404,085

Sales of debt and equity securities resulted in realized gains of $1.7 million and $8.9 million, and realized losses of $0.7 million and $0.2 million for the three months ended September 30, 2017 and 2016, respectively, and realized gains of $21.8 million and $22.1 million, and realized losses of $5.9 million and $7.2 million for the nine months ended September 30, 2017 and 2016, respectively.

Gross unrealized losses on investments in debt and equity securities are as follows:

	Less than 12 months		12 months or longer		Total	
(in thousands)	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses
September 30, 2017						
Debt securities:						
U.S. Treasury bonds	$61,500	$(584)	$20,177	$(843)	$81,677	$(1,427)
Municipal bonds	124,976	(775)	247,001	(10,020)	371,977	(10,795)
Foreign government bonds	97,341	(1,058)	10,471	(399)	107,812	(1,457)
Governmental agency bonds	106,783	(778)	81,053	(2,113)	187,836	(2,891)
Governmental agency mortgage-backed securities	686,814	(4,572)	832,251	(11,828)	1,519,065	(16,400)
U.S. corporate debt securities	113,028	(1,484)	50,152	(1,287)	163,180	(2,771)
Foreign corporate debt securities	62,671	(457)	3,492	(67)	66,163	(524)
Total debt securities	1,253,113	(9,708)	1,244,597	(26,557)	2,497,710	(36,265)
Equity securities	36,407	(485)	28,115	(1,627)	64,522	(2,112)
Total	$1,289,520	$(10,193)	$1,272,712	$(28,184)	$2,562,232	$(38,377)
December 31, 2016						
Debt securities:						
U.S. Treasury bonds	$111,748	$(4,466)	$—	$—	$111,748	$(4,466)

Municipal bonds	635,531	(26,317)	16,485	(349)	652,016	(26,666)
Foreign government bonds	63,044	(2,371)	324	(68)	63,368	(2,439)
Governmental agency bonds	148,112	(4,166)	—	—	148,112	(4,166)
Governmental agency mortgage-backed securities	1,295,790	(19,097)	432,349	(7,695)	1,728,139	(26,792)
U.S. corporate debt securities	193,533	(4,560)	24,499	(881)	218,032	(5,441)
Foreign corporate debt securities	78,658	(1,150)	8,154	(340)	86,812	(1,490)
Total debt securities	2,526,416	(62,127)	481,811	(9,333)	3,008,227	(71,460)
Equity securities	70,261	(1,173)	59,019	(6,871)	129,280	(8,044)
Total	$2,596,677	$ (63,300)	$540,830	$ (16,204)	$3,137,507	$ (79,504)

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Investments in debt securities at September 30, 2017, by contractual maturities, are as follows:

(in thousands)	Due in one year or less	Due after one through five years	Due after five through ten years	Due after ten years	Total
U.S. Treasury bonds					
Amortized cost	$ 24,966	$48,269	$28,318	$43,843	$145,396
Estimated fair value	$ 24,937	$48,104	$28,338	$44,074	$145,453
Municipal bonds					
Amortized cost	$ 61,831	$314,910	$254,976	$436,894	$1,068,611
Estimated fair value	$ 61,960	$318,703	$259,744	$431,955	$1,072,362
Foreign government bonds					
Amortized cost	$ 7,772	$129,408	$9,699	$15,671	$162,550
Estimated fair value	$ 7,783	$128,568	$9,864	$15,434	$161,649
Governmental agency bonds					
Amortized cost	$ 15,430	$106,826	$55,085	$46,205	$223,546
Estimated fair value	$ 15,415	$105,946	$54,607	$45,750	$221,718
U.S. corporate debt securities					
Amortized cost	$ 29,681	$299,209	$314,805	$72,604	$716,299
Estimated fair value	$ 29,800	$302,345	$319,329	$75,454	$726,928
Foreign corporate debt securities					
Amortized cost	$ 14,843	$120,804	$93,769	$15,361	$244,777
Estimated fair value	$ 14,869	$121,807	$96,350	$16,428	$249,454
Total debt securities excluding mortgage-backed securities					
Amortized cost	$ 154,523	$1,019,426	$756,652	$630,578	$2,561,179
Estimated fair value	$ 154,764	$1,025,473	$768,232	$629,095	$2,577,564
Total mortgage-backed securities					
Amortized cost					$2,238,222
Estimated fair value					$2,225,920
Total debt securities					
Amortized cost					$4,799,401
Estimated fair value					$4,803,484

Mortgage-backed securities, which include contractual terms to maturity, are not categorized by contractual maturity because borrowers may have the right to call or prepay obligations with, or without, call or prepayment penalties.

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The composition of the investment portfolio at September 30, 2017, by credit rating, is as follows:

	A- or higher		BBB+ to BBB-		Non-Investment Grade		Total	
(in thousands, except percentages)	Estimated fair value	Percentage	Estimated fair value	Percentage	Estimated fair value	Percentage	Estimated fair value	Percentage
September 30, 2017								
Debt securities:								
U.S. Treasury bonds	$145,453	100.0	$—	—	$—	—	$145,453	100.0
Municipal bonds	999,995	93.2	54,521	5.1	17,846	1.7	1,072,362	100.0
Foreign government bonds	133,945	82.9	22,184	13.7	5,520	3.4	161,649	100.0
Governmental agency bonds	221,718	100.0	—	—	—	—	221,718	100.0
Governmental agency mortgage-backed securities	2,225,920	100.0	—	—	—	—	2,225,920	100.0
U.S. corporate debt securities	249,320	34.3	262,936	36.2	214,672	29.5	726,928	100.0
Foreign corporate debt securities	123,674	49.6	96,553	38.7	29,227	11.7	249,454	100.0
Total debt securities	4,100,025	85.3	436,194	9.1	267,265	5.6	4,803,484	100.0
Preferred stocks	—	—	13,616	73.5	4,911	26.5	18,527	100.0
Total	$4,100,025	85.1	$449,810	9.3	$272,176	5.6	$4,822,011	100.0

As of September 30, 2017, the estimated fair value of total debt securities included $144.3 million of bank loans, of which $133.7 million was non-investment grade; $106.7 million of high yield corporate debt securities, all of which was non-investment grade; and $74.3 million of emerging market debt securities, of which $9.0 million was non-investment grade.

The composition of the investment portfolio in an unrealized loss position at September 30, 2017, by credit rating, is as follows:

	A- or higher		BBB+ to BBB-		Non-Investment Grade		Total	
(in thousands, except percentages)	Estimated fair value	Percentage	Estimated fair value	Percentage	Estimated fair value	Percentage	Estimated fair value	Percentage

September 30, 2017								
Debt securities:								
U.S. Treasury bonds	$81,677	100.0	$—	—	$—	—	$81,677	100.0
Municipal bonds	355,301	95.6	15,057	4.0	1,619	0.4	371,977	100.0
Foreign government bonds	95,300	88.4	9,663	9.0	2,849	2.6	107,812	100.0
Governmental agency bonds	187,836	100.0	—	—	—	—	187,836	100.0
Governmental agency mortgage-backed securities	1,519,065	100.0	—	—	—	—	1,519,065	100.0
U.S. corporate debt securities	46,440	28.5	80,803	49.5	35,937	22.0	163,180	100.0
Foreign corporate debt securities	40,649	61.4	23,108	34.9	2,406	3.7	66,163	100.0
Total debt securities	2,326,268	93.1	128,631	5.1	42,811	1.8	2,497,710	100.0
Preferred stocks	—	—	7,990	66.3	4,063	33.7	12,053	100.0
Total	$2,326,268	92.7	$136,621	5.4	$46,874	1.9	$2,509,763	100.0

As of September 30, 2017, the estimated fair value of total debt securities in an unrealized loss position included $26.4 million of bank loans, of which $26.0 million was non-investment grade; $11.6 million of high yield corporate debt securities, all of which was non-investment grade; and $15.4 million of emerging market debt securities, of which $3.6 million was non-investment grade.

The credit ratings in the above tables reflect published ratings obtained from globally recognized securities rating agencies. If a security was rated differently among the rating agencies, the lowest rating was selected. Governmental agency mortgage-backed securities are not rated by any of the ratings agencies; however, these securities have been included in the above table in the “A- or higher” category because the payments of principal and interest are guaranteed by the governmental agency that issued the security.

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Note 4 – Goodwill

A summary of the changes in the carrying amount of goodwill, by operating segment, for the nine months ended September 30, 2017, is as follows:

(in thousands)	Title Insurance and Services	Specialty Insurance	Total
Balance as of December 31, 2016	$ 970,652	$ 46,765	$ 1,017,417
Acquisitions	123,954	—	123,954
Foreign currency translation	4,391	—	4,391
Other adjustments	(298)	—	(298)
Balance as of September 30, 2017	$ 1,098,699	$ 46,765	$ 1,145,464

The Company's four reporting units for purposes of assessing goodwill for impairment are title insurance, home warranty, property and casualty insurance and trust and other services. During the nine months ended September 30, 2017 there were no triggering events that would more likely than not reduce the fair value of any reporting unit below its carrying amount.

For further discussion about the Company's acquisitions for the three and nine months ended September 30, 2017, see Note 14 Business Combinations.

Note 5 – Other Intangible Assets

Other intangible assets consist of the following:

(in thousands)	September 30, 2017	December 31, 2016
Finite-lived intangible assets:		
Customer relationships	$ 77,600	$ 78,542
Noncompete agreements	10,210	10,007
Trademarks	7,210	6,472

Internal-use software licenses	27,632	16,038
Patents	2,840	2,840
	125,492	113,899
Accumulated amortization	(67,250)	(51,885)
	58,242	62,014
Indefinite-lived intangible assets:		
Licenses	16,884	16,884
	$ 75,126	$ 78,898

Amortization expense for finite-lived intangible assets was $7.0 million and $19.7 million for the three and nine months ended September 30, 2017, respectively, and $3.7 million and $9.3 million for the three and nine months ended September 30, 2016, respectively.

Estimated amortization expense for finite-lived intangible assets for the next five years is as follows:

Year	(in thousands)
Remainder of 2017	$ 7,975
2018	$ 15,920
2019	$ 9,210
2020	$ 5,221
2021	$ 2,976
2022	$ 2,380

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Note 6 – Reserve for Known and Incurred But Not Reported Claims

Activity in the reserve for known and incurred but not reported claims is summarized as follows:

	Nine months ended September 30,	
(in thousands)	2017	2016
Balance at beginning of period	$1,025,863	$983,880
Provision related to:		
Current year	330,342	345,556
Prior years	3,353	20,917
	333,695	366,473
Payments, net of recoveries, related to:		
Current year	165,914	160,693
Prior years	185,483	190,656
	351,397	351,349
Other	13,487	19,036
Balance at end of period	$1,021,648	$1,018,040

The provision for title insurance losses, expressed as a percentage of title insurance premiums and escrow fees, was 4.0% for the three and nine months ended September 30, 2017 compared to 5.5% for the three and nine months ended September 30, 2016. The current quarter rate of 4.0% reflects the ultimate loss rate for the current policy year and no change in the loss reserve estimates for prior policy years. The third quarter of 2016 rate of 5.5% reflected the ultimate loss rate of 5.0% for the 2016 policy year and a $5.8 million net increase in the loss reserve estimates for prior policy years.

A summary of the Company's loss reserves is as follows:

(in thousands, except percentages)	September 30, 2017		December 31, 2016	
Known title claims	$74,755	7.3 %	$83,805	8.1 %
Incurred but not reported claims	889,079	87.0 %	888,126	86.6 %
Total title claims	963,834	94.3 %	971,931	94.7 %
Non-title claims	57,814	5.7 %	53,932	5.3 %
Total loss reserves	$1,021,648	100.0%	$1,025,863	100.0%

Note 7 – Income Taxes

The Company's effective income tax rates (income tax expense as a percentage of income before income taxes) were -17.9% and 29.7% for the three and nine months ended September 30, 2017, respectively, and 35.7% and 33.7% for the three and nine months ended September 30, 2016, respectively. The Company's effective tax rates differ from the statutory federal rate of 35% primarily due to changes in state and foreign income taxes resulting from fluctuations in the Company's noninsurance and foreign subsidiaries' contributions to pretax income and changes in the ratio of permanent differences to income before income taxes. The Company's effective tax rates for 2017 also reflect state tax benefits relating to the termination of the Company's pension plan, as well as the release of reserves relating to tax positions taken on prior year tax returns. In addition, the Company's effective tax rates for 2017 reflect the adoption of new accounting guidance related to the accounting for share-based payment transactions, which requires, among other items, that all excess tax benefits and tax deficiencies associated with share-based payment transactions be recorded in income tax expense rather than in additional paid-in capital, as previously required. The impact to the Company of adopting this guidance was a reduction in income tax expense of $0.1 million and $2.8 million for the three and nine months ended September 30, 2017, respectively. See Note 1 Basis of Condensed Consolidated Financial Statements for further discussion of the new guidance. The Company's effective tax rates for 2016 also reflect the resolution of certain tax authority examinations and tax credits claimed in 2016 and in prior years.

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In connection with the Company's June 2010 spin-off from its prior parent, which subsequently assumed the name CoreLogic, Inc. ("CoreLogic"), it entered into a tax sharing agreement which governs the Company's and CoreLogic's respective rights, responsibilities and obligations for certain tax related matters. At September 30, 2017 and December 31, 2016, the Company had a net payable to CoreLogic of $13.0 million and $16.3 million, respectively, related to tax matters prior to the spin-off. This amount is included in the Company's condensed consolidated balance sheets in accounts payable and accrued liabilities. The decrease during the current year was primarily due to payments made for tax matters prior to the spin-off.

The Company evaluates the realizability of its deferred tax assets by assessing the valuation allowance and makes adjustments to the allowance as necessary. The factors used to assess the likelihood of realization include the Company's forecast of future taxable income and available tax planning strategies that could be implemented to realize the deferred tax assets. The Company's ability or failure to achieve forecasted taxable income in the applicable taxing jurisdictions could affect the ultimate realization of deferred tax assets. Based on actual future operating results in certain jurisdictions, it is possible that the current valuation allowance positions of those jurisdictions could be adjusted in the next 12 months.

As of September 30, 2017 and December 31, 2016, the liability for income taxes associated with uncertain tax positions was $12.8 million and $18.1 million, respectively. The net decrease in the liability during 2017 was primarily attributable to settlements with taxing authorities relating to tax positions taken by the Company on prior year tax returns. As of September 30, 2017 and December 31, 2016, the liability could be reduced by $5.4 million and $5.7 million, respectively, due to offsetting tax benefits associated with the correlative effects of potential adjustments, including timing adjustments and state income taxes. The net amounts of $7.4 million and $12.4 million as of September 30, 2017 and December 31, 2016, respectively, if recognized, would favorably affect the Company's effective tax rate.

The Company's continuing practice is to recognize interest and penalties, if any, related to uncertain tax positions in income tax expense. As of September 30, 2017 and December 31, 2016, the Company had accrued $4.5 million and $4.1 million, respectively, of interest and penalties (net of tax benefits of $2.0 million and $1.8 million, respectively) related to uncertain tax positions.

It is reasonably possible that the amount of the unrecognized benefit with respect to certain of the Company's unrecognized tax positions may significantly increase or decrease within the next 12 months. Any such change may be the result of ongoing audits or the expiration of federal and state statutes of limitations for the assessment of taxes.

The Company, or one of its subsidiaries, files income tax returns in the U.S. federal jurisdiction, various state jurisdictions, and various non-U.S. jurisdictions. The primary non-federal jurisdictions are California, Canada, India and the United Kingdom. During 2016, the Company concluded U.S. federal income tax examinations for calendar years 2005 through 2013. The Company is generally no longer subject to U.S. federal, state and non-U.S. income tax examinations for years prior to 2005.

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Note 8 – Earnings Per Share

The computation of basic and diluted earnings per share is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands, except per share amounts)	2017	2016	2017	2016
Numerator				
Net income attributable to the Company	$21,383	$107,320	$201,922	$261,970
Denominator				
Basic weighted-average shares	111,799	110,571	111,578	110,423
Effect of dilutive employee stock options and restricted stock units (“RSUs”)	776	680	676	583
Diluted weighted-average shares	112,575	111,251	112,254	111,006
Net income per share attributable to the Company’s stockholders				
Basic	$0.19	$0.97	$1.81	$2.37
Diluted	$0.19	$0.96	$1.80	$2.36

For the three and nine months ended September 30, 2017, 1 thousand RSUs and 8 thousand RSUs, respectively, were excluded from weighted-average diluted common shares outstanding due to their antidilutive effect. For the three months ended September 30, 2016, no RSUs had an antidilutive effect on weighted-average diluted common shares outstanding, and for the nine months ended September 30, 2016, 17 thousand RSUs were excluded from weighted-average diluted common shares outstanding due to their antidilutive effect. No stock options had an antidilutive effect on weighted-average diluted common shares outstanding for either period in the current year or in the prior year.

Note 9 – Employee Benefit Plans

Net periodic cost related to the Company’s defined benefit pension and supplemental benefit plans includes the following components:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2017	2016	2017	2016
Expense:				
Service costs	$184	$260	$551	$781
Interest costs	2,086	5,999	11,185	18,000

Settlement costs	152,388	—	152,388	—
Expected return on plan assets	—	(3,083)	(4,740)	(9,250)
Amortization of net actuarial loss	1,958	7,043	15,792	21,153
Amortization of prior service credit	(1,045)	(1,211)	(3,268)	(3,633)
	$155,571	$9,008	$171,908	$27,051

Pension termination and settlement

In May 2016, the Company's board of directors terminated the Company's funded defined benefit pension plan known as the First American Financial Corporation Pension Plan, effective as of July 31, 2016. The pension plan was closed to new entrants effective December 31, 2001 and amended to "freeze" all benefit accruals as of April 30, 2008. Also, in May 2016, a subsidiary of the Company terminated its small regional funded defined benefit pension plan effective as of August 31, 2016. All financial impacts discussed below reflect the termination of both pension plans.

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The pension plans offered participants annuity payments based on a number of factors and, for certain participants, an alternative lump sum distribution option. During 2016, the Company made additional cash contributions of $84.8 million above scheduled amounts and offered lump sum distributions to certain participants. The lump sum distributions were settled through distributions of pension plan assets in the fourth quarter totaling $127.2 million for which the Company recognized $66.3 million in settlement costs.

The Company made cash contributions of $34.0 million in March 2017 to fully fund its pension obligation. In July 2017, the Company completed the transfer of all remaining benefit obligations related to the pension plans to a highly rated insurance company and recognized $152.4 million in settlement costs in the condensed consolidated statements of income in the third quarter of 2017.

Note 10 – Fair Value Measurements

Certain of the Company's assets are carried at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Company categorizes its assets and liabilities carried at fair value using a three-level hierarchy for fair value measurements that distinguishes between market participant assumptions developed based on market data obtained from sources independent of the Company (observable inputs) and the Company's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The hierarchy for inputs used in determining fair value maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available. The hierarchy level assigned to the assets and liabilities is based on management's assessment of the transparency and reliability of the inputs used to estimate the fair values at the measurement date. The three hierarchy levels are defined as follows:

Level 1—Valuations based on unadjusted quoted market prices in active markets for identical assets or liabilities.

Level 2—Valuations based on observable inputs (other than Level 1 prices), such as quoted prices for similar assets or liabilities at the measurement date; quoted prices in markets that are not active; or other inputs that are observable, either directly or indirectly.

Level 3—Valuations based on inputs that are unobservable and significant to the overall fair value measurement, and involve management judgment.

If the inputs used to measure fair value fall into different levels of the fair value hierarchy, the hierarchy level assigned is based upon the lowest level of input that is significant to the fair value measurement.

Assets measured at fair value on a recurring basis

The valuation techniques and inputs used by the Company to estimate the fair value of assets measured on a recurring basis are summarized as follows:

Debt securities

The fair values of debt securities were based on the market values obtained from independent pricing services that were evaluated using pricing models that vary by asset class and incorporate available trade, bid and other market information and price quotes from well-established independent broker-dealers. The independent pricing services monitor market indicators, industry and economic events, and for broker-quoted only securities, obtain quotes from market makers or broker-dealers that they recognize to be market participants. The pricing services utilize the market approach in determining the fair value of the debt securities held by the Company. The Company obtains an understanding of the valuation models and assumptions utilized by the services and has controls in place to determine that the values provided represent fair value. The Company’s validation procedures include comparing prices received from the pricing services to quotes received from other third party sources for certain securities with market prices that are readily verifiable. If the price comparison results in differences over a predefined threshold, the Company will assess the reasonableness of the changes relative to prior periods given the prevailing market conditions and assess changes in the issuers’ credit worthiness, performance of any underlying collateral and prices of the instrument relative to similar issuances. To date, the Company has not made any material adjustments to the fair value measurements provided by the pricing services.

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Typical inputs and assumptions to pricing models used to value the Company's U.S. Treasury bonds, municipal bonds, foreign government bonds, governmental agency bonds, governmental agency mortgage-backed securities and U.S. and foreign corporate debt securities include, but are not limited to, benchmark yields, reported trades, broker-dealer quotes, credit spreads, credit ratings, bond insurance (if applicable), benchmark securities, bids, offers, reference data and industry and economic events. For mortgage-backed securities, inputs and assumptions may also include the structure of issuance, characteristics of the issuer, collateral attributes and prepayment speeds. Certain corporate debt securities were not actively traded and there were fewer observable inputs available requiring the use of more judgment in determining their fair values, which resulted in their classification as Level 3.

Equity securities

The fair values of equity securities, including preferred and common stocks, were based on quoted market prices for identical assets that are readily and regularly available in an active market.

The following tables present the fair values of the Company's assets, measured on a recurring basis, as of September 30, 2017 and December 31, 2016:

(in thousands)	Total	Level 1	Level 2	Level 3
September 30, 2017				
Assets:				
Debt securities:				
U.S. Treasury bonds	$145,453	$—	$145,453	$—
Municipal bonds	1,072,362	—	1,072,362	—
Foreign government bonds	161,649	—	161,649	—
Governmental agency bonds	221,718	—	221,718	—
Governmental agency mortgage-backed securities	2,225,920	—	2,225,920	—
U.S. corporate debt securities	726,928	—	714,419	12,509
Foreign corporate debt securities	249,454	—	248,581	873
	4,803,484	—	4,790,102	13,382
Equity securities:				
Preferred stocks	18,527	18,527	—	—
Common stocks	427,658	427,658	—	—
	446,185	446,185	—	—
Total assets	$5,249,669	$446,185	$4,790,102	$13,382

(in thousands)	Total	Level 1	Level 2	Level 3
December 31, 2016				
Assets:				
Debt securities:				
U.S. Treasury bonds	$151,391	$—	$151,391	$—
Municipal bonds	984,333	—	984,333	—

Foreign government bonds	140,048	—	140,048	—
Governmental agency bonds	193,868	—	193,868	—
Governmental agency mortgage-backed securities	2,163,673	—	2,163,673	—
U.S. corporate debt securities	678,524	—	631,859	46,665
Foreign corporate debt securities	241,526	—	235,258	6,268
	4,553,363	—	4,500,430	52,933
Equity securities:				
Preferred stocks	15,582	15,582	—	—
Common stocks	388,503	388,503	—	—
	404,085	404,085	—	—
Total assets	$4,957,448	$404,085	$4,500,430	$52,933

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There were no transfers between Levels 1 and 2 during the three and nine months ended September 30, 2017 and 2016. Transfers into or out of the Level 3 category occur when unobservable inputs become more or less significant to the fair value measurement. For the three and nine months ended September 30, 2017 and 2016, transfers between Level 2 and Level 3 were based on market liquidity and related transparency of pricing and associated observable inputs for certain of the Company's corporate debt securities. The Company's policy is to recognize transfers between levels in the fair value hierarchy at the end of the reporting period.

The following table presents a summary of the changes in the fair values of Level 3 assets, measured on a recurring basis, for the three months ended September 30, 2017 and 2016:

	September 30, 2017			September 30, 2016		
(in thousands)	U.S. corporate debt securities	Foreign corporate debt securities	Total	U.S. corporate debt securities	Foreign corporate debt securities	Total
Fair value at beginning of period	$18,128	$ 1,915	$20,043	$14,493	$ 723	$15,216
Transfers into Level 3	3,747	573	4,320	5,968	—	5,968
Transfers out of Level 3	(6,788)	—	(6,788)	(4,546)	—	(4,546)
Net realized and unrealized gains (losses):						
Included in earnings	26	(1)	25	5	—	5
Included in other comprehensive income (loss)	(86)	(5)	(91)	115	43	158
Purchases	901	149	1,050	1,866	1,045	2,911
Sales	(1,231)	—	(1,231)	(46)	(50)	(96)
Settlements	(2,188)	(1,758)	(3,946)	(356)	—	(356)
Fair value at end of period	$12,509	$ 873	$13,382	$17,499	$ 1,761	$19,260

The following table presents a summary of the changes in the fair values of Level 3 assets, measured on a recurring basis, for the nine months ended September 30, 2017 and 2016:

	September 30, 2017			September 30, 2016		
(in thousands)	U.S. corporate debt securities	Foreign corporate debt securities	Total	U.S. corporate debt securities	Foreign corporate debt securities	Total
Fair value at beginning of period	$46,665	$ 6,268	$52,933	$43,567	$ 6,572	$50,139
Transfers into Level 3	377	198	575	269	—	269
Transfers out of Level 3	(27,066)	(2,111)	(29,177)	(27,764)	(3,822)	(31,586)
Net realized and unrealized gains (losses):						
Included in earnings	117	11	128	(88)	(48)	(136)
Included in other comprehensive income (loss)	(460)	(47)	(507)	1,053	88	1,141
Purchases	7,994	1,075	9,069	10,132	1,243	11,375

Sales	(2,824)	(1,954)	(4,778)	(4,750)	(1,045)	(5,795)
Settlements	(12,294)	(2,567)	(14,861)	(4,920)	(1,227)	(6,147)
Fair value at end of period	$12,509	$ 873	$13,382	$17,499	$ 1,761	$19,260

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Financial instruments not measured at fair value

In estimating the fair values of its financial instruments not measured at fair value, the Company used the following methods and assumptions:

Cash and cash equivalents

The carrying amount for cash and cash equivalents is a reasonable estimate of fair value due to the short-term maturity of these investments.

Deposits with banks

The fair value of deposits with banks is estimated based on rates currently offered for deposits of similar remaining maturities, where applicable.

Notes receivable, net

The fair value of notes receivable, net is estimated based on current market rates being offered for notes with similar maturities and credit quality.

Deposits

The carrying values of escrow and other deposit accounts approximate fair value due to the short-term nature of these liabilities.

Notes and contracts payable

The fair value of notes and contracts payable is estimated based on current rates offered to the Company for debt of similar remaining maturities.

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments not measured at fair value as of September 30, 2017 and December 31, 2016:

	Carrying	Estimated fair value			
(in thousands)	Amount	Total	Level 1	Level 2	Level 3
September 30, 2017					
Assets:					
Cash and cash equivalents	$1,141,915	$1,141,915	$1,141,915	$—	$—
Deposits with banks	$20,940	$20,887	$265	$20,622	$—
Notes receivable, net	$7,466	$7,297	$—	$—	$7,297
Liabilities:					
Deposits	$2,965,426	$2,965,426	$2,965,426	$—	$—

Notes and contracts payable	$734,091	$756,536	$—	$752,070	$4,466

(in thousands)	Carrying Amount	Estimated fair value Total	Level 1	Level 2	Level 3
December 31, 2016					
Assets:					
Cash and cash equivalents	$1,006,138	$1,006,138	$1,006,138	$—	$—
Deposits with banks	$21,222	$21,176	$1,017	$20,159	$—
Notes receivable, net	$7,799	$7,542	$—	$—	$7,542
Liabilities:					
Deposits	$2,779,478	$2,779,478	$2,779,478	$—	$—
Notes and contracts payable	$736,693	$734,812	$—	$729,658	$5,154

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Note 11 – Share-Based Compensation

The following table presents compensation expense associated with the Company's share-based compensation plans:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2017	2016	2017	2016
Expense:				
RSUs	$ 5,866	$ 5,401	$28,634	$25,766
Stock options	69	68	203	203
Employee stock purchase plan	682	659	2,359	2,127
	$ 6,617	$ 6,128	$31,196	$28,096

The following table summarizes RSU activity for the nine months ended September 30, 2017:

(in thousands, except weighted-average grant-date fair value)	Shares	Weighted-average grant-date fair value
Unvested at December 31, 2016	1,510	$ 33.38
Granted during 2017	893	$ 39.26
Vested during 2017	(957)	$ 34.53
Forfeited during 2017	(9)	$ 35.22
Unvested at September 30, 2017	1,437	$ 36.25

Note 12 – Accumulated Other Comprehensive Income (Loss) ("AOCI")

The following table presents a summary of the changes in each component of AOCI for the nine months ended September 30, 2017:

(in thousands)	Unrealized	Foreign	Pension	Accumulated

	gains (losses) on securities	currency translation adjustment	benefit adjustment	other comprehensive income (loss)
Balance at December 31, 2016	$ (26,760)	$ (63,576)	$ (140,057)	$ (230,393)
Change in unrealized gains (losses) on securities	81,044	—	—	81,044
Change in foreign currency translation adjustment	—	23,558	—	23,558
Net actuarial loss	—	—	(8,646)	(8,646)
Amortization of net actuarial loss	—	—	15,792	15,792
Amortization of prior service credit	—	—	(3,268)	(3,268)
Settlement costs	—	—	152,388	152,388
Tax effect	(29,030)	—	(63,205)	(92,235)
Balance at September 30, 2017	$ 25,254	$ (40,018)	$ (46,996)	$ (61,760)
Allocated to the Company	$ 25,235	$ (40,018)	$ (46,996)	$ (61,779)
Allocated to noncontrolling interests	19	—	—	19
Balance at September 30, 2017	$ 25,254	$ (40,018)	$ (46,996)	$ (61,760)

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The following table presents the other comprehensive income (loss) reclassification adjustments for the three months ended September 30, 2017 and 2016:

(in thousands)	Unrealized gains (losses) on securities	Foreign currency translation adjustment	Pension benefit adjustment	Total other comprehensive income (loss)
Three Months Ended September 30, 2017				
Pretax change before reclassifications	$ 22,833	$ 11,415	$ (8,646)	$ 25,602
Reclassifications out of AOCI	(928)	—	153,301	152,373
Tax effect	(7,976)	—	(58,764)	(66,740)
Total other comprehensive income (loss), net of tax	$ 13,929	$ 11,415	$ 85,891	$ 111,235
Three Months Ended September 30, 2016				
Pretax change before reclassifications	$ 12,435	$ (3,459)	$ —	$ 8,976
Reclassifications out of AOCI	(8,687)	—	5,832	(2,855)
Tax effect	(1,169)	—	(2,230)	(3,399)
Total other comprehensive income (loss), net of tax	$ 2,579	$ (3,459)	$ 3,602	$ 2,722

The following table presents the other comprehensive income (loss) reclassification adjustments for the nine months ended September 30, 2017 and 2016:

(in thousands)	Unrealized gains (losses) on securities	Foreign currency translation adjustment	Pension benefit adjustment	Total other comprehensive income (loss)
Nine Months Ended September 30, 2017				
Pretax change before reclassifications	$ 95,329	$ 23,558	$ (8,646)	$ 110,241
Reclassifications out of AOCI	(14,285)	—	164,912	150,627
Tax effect	(29,030)	—	(63,205)	(92,235)
Total other comprehensive income (loss), net of tax	$ 52,014	$ 23,558	$ 93,061	$ 168,633
Nine Months Ended September 30, 2016				
Pretax change before reclassifications	$ 96,612	$ 3,066	$ —	$ 99,678
Reclassifications out of AOCI	(13,222)	—	17,520	4,298

Tax effect	(31,303)	—	(6,701)	(38,004)
Total other comprehensive income (loss), net of tax	$ 52,087	$ 3,066	$ 10,819	$ 65,972

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The following table presents the effects of the reclassifications out of AOCI on the respective line items in the condensed consolidated statements of income:

	Amounts reclassified from AOCI				
	Three Months Ended		Nine Months Ended		
(in thousands)	September 30, 2017	2016	September 30, 2017	2016	Affected line items in the condensed consolidated statements of income
Unrealized gains (losses) on securities:					
Net realized gains on sales of securities	$928	$8,687	$14,285	$13,707	Net realized investment (losses) gains
Net other-than-temporary impairment losses	—	—	—	(485)	Net realized investment (losses) gains
Pretax total	$928	$8,687	$14,285	$13,222	
Tax effect	$(332)	$(3,261)	$(5,778)	$(5,057)	
Pension benefit adjustment:					
Amortization of net actuarial loss	$(1,958)	$(7,043)	$(15,792)	$(21,153)	(1)
Amortization of prior service credit	1,045	1,211	3,268	3,633	(1)
Settlement costs	(152,388)	—	(152,388)	—	(1)
Pretax total	$(153,301)	$(5,832)	$(164,912)	$(17,520)	
Tax effect	$62,276	$2,229	$66,702	$6,701	

(1) These components of AOCI are included in the computation of net periodic cost. See Note 9 Employee Benefit Plans for additional details.

Note 13 – Litigation and Regulatory Contingencies

The Company and its subsidiaries are parties to a number of non-ordinary course lawsuits. These lawsuits frequently are similar in nature to other lawsuits pending against the Company's competitors.

For those non-ordinary course lawsuits where the Company has determined that a loss is both probable and reasonably estimable, a liability representing the best estimate of the Company's financial exposure based on known facts has been recorded. Actual losses may materially differ from the amounts recorded.

For a substantial majority of these lawsuits, however, it is not possible to assess the probability of loss. Most of these lawsuits are putative class actions which require a plaintiff to satisfy a number of procedural requirements before proceeding to trial. These requirements include, among others, demonstration to a court that the law proscribes in some manner the Company's activities, the making of factual allegations sufficient to suggest that the Company's activities exceeded the limits of the law and a determination by the court—known as class certification—that the law permits a group of individuals to pursue the case together as a class. In certain instances the Company may also be able to compel the plaintiff to arbitrate its claim on an individual basis. If these procedural requirements are not met, either the lawsuit cannot proceed or, as is the case with class certification or compelled arbitration, the plaintiffs lose the financial incentive to proceed with the case (or the amount at issue effectively becomes de minimis). Frequently, a court's determination as to these procedural requirements is subject to appeal to a higher court. As a result of, among other factors, ambiguities and inconsistencies in the myriad laws applicable to the Company's business and the uniqueness of the factual issues presented in any given lawsuit, the Company often cannot determine the probability of loss until a court has finally determined that a plaintiff has satisfied applicable procedural requirements.

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Furthermore, because most of these lawsuits are putative class actions, it is often impossible to estimate the possible loss or a range of loss amounts, even where the Company has determined that a loss is reasonably possible. Generally class actions involve a large number of people and the effort to determine which people satisfy the requirements to become plaintiffs—or class members—is often time consuming and burdensome. Moreover, these lawsuits raise complex factual issues which result in uncertainty as to their outcome and, ultimately, make it difficult for the Company to estimate the amount of damages which a plaintiff might successfully prove. In addition, many of the Company's businesses are regulated by various federal, state, local and foreign governmental agencies and are subject to numerous statutory guidelines. These regulations and statutory guidelines often are complex, inconsistent or ambiguous, which results in additional uncertainty as to the outcome of a given lawsuit—including the amount of damages a plaintiff might be afforded—or makes it difficult to analogize experience in one case or jurisdiction to another case or jurisdiction.

Most of the non-ordinary course lawsuits to which the Company and its subsidiaries are parties challenge practices in the Company's title insurance business, though a limited number of cases also pertain to the Company's other businesses. These lawsuits include, among others, cases alleging, among other assertions, that the Company, one of its subsidiaries and/or one of its agents overcharged or improperly charged fees for products and services, conspired to fix prices, participated in the conveyance of illusory property interests, denied home warranty claims, improperly handled property and casualty claims, and gave items of value to brokers and others as inducements to refer business in violation of certain laws, such as consumer protection laws and laws generally prohibiting unfair business practices, and certain obligations, including

- Chavez v. First American Specialty Insurance Company, filed on June 29, 2017 and pending in the Superior Court of the State of California, County of Los Angeles,
- Downing v. First American Title Insurance Company, et al., filed on July 26, 2016 and pending in the United States District Court for the Northern District of Georgia,
- Kaufman v. First American Financial Corporation, et al., filed on December 21, 2007 and pending in the Superior Court of the State of California, County of Los Angeles,
- Lennen v. First American Financial Corporation, et al., filed on May 19, 2016 and pending in the United States District court for the Middle District of Florida,
- McCormick v. First American Real Estate Services, Inc., et al., filed on December 31, 2015 and pending in the Superior Court of the State of California, County of Orange,
- Sjobring v. First American Financial Corporation, et al., filed on February 25, 2005 and pending in the Superior Court of the State of California, County of Los Angeles,
- Tenefufu vs. First American Specialty Insurance Company, filed on June 1, 2017, pending in the Superior Court of the State of California, County of Sacramento,
- Wilmot v. First American Financial Corporation, et al., filed on April 20, 2007 and pending in the Superior Court of the State of California, County of Los Angeles, and
- In re First American Home Buyers Protection Corporation, consolidated on October 9, 2014 and pending in the United States District Court for the Southern District of California.

All of these lawsuits, except Kaufman and Sjobring, are putative class actions for which a class has not been certified. For the reasons described above, the Company has not yet been able to assess the probability of loss or estimate the possible loss or the range of loss or, where the Company has been able to make an estimate, the Company believes the amount is not material to the condensed consolidated financial statements as a whole.

While some of the lawsuits described above may be material to the Company's operating results in any particular period if an unfavorable outcome results, the Company does not believe that any of these lawsuits will have a material adverse effect on the Company's overall financial condition or liquidity.

The Company also is a party to non-ordinary course lawsuits other than those described above. With respect to these lawsuits, the Company has determined either that a loss is not reasonably possible or that the estimated loss or range of loss, if any, is not material to the condensed consolidated financial statements as a whole.

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The Company's title insurance, property and casualty insurance, home warranty, banking, thrift, trust and investment advisory businesses are regulated by various federal, state and local governmental agencies. Many of the Company's other businesses operate within statutory guidelines. Consequently, the Company may from time to time be subject to examination or investigation by such governmental agencies. Currently, governmental agencies are examining or investigating certain of the Company's operations. These exams or investigations include inquiries into, among other matters, pricing and rate setting practices in the title insurance industry, competition in the title insurance industry, real estate settlement service, customer acquisition and retention practices and agency relationships. With respect to matters where the Company has determined that a loss is both probable and reasonably estimable, the Company has recorded a liability representing its best estimate of the financial exposure based on known facts. While the ultimate disposition of each such exam or investigation is not yet determinable, the Company does not believe that individually or in the aggregate they will have a material adverse effect on the Company's financial condition, results of operations or cash flows. These exams or investigations could, however, result in changes to the Company's business practices which could ultimately have a material adverse impact on the Company's financial condition, results of operations or cash flows.

The Company's Canadian operations provide certain services to lenders which it believes to be exempt from excise tax under applicable Canadian tax laws. However, in October 2014, the Canadian taxing authority provided internal guidance that the services in question should be subject to the excise tax. While discussions with the taxing authority are ongoing, the Company believes that the guidance may result in an assessment. The amount, if any, of such assessment is not currently known, and any such assessment would be subject to negotiation. In the event that the Company disagrees with the ultimate assessment, the Company intends to avail itself of avenues of appeal. While the Company believes it is reasonably likely that the Company would prevail on the merits, a loss associated with the matter is possible. In light of the foregoing, the Company is not currently able to reasonably estimate a loss or range of loss associated with the matter. While such a loss could be material to the Company's operating results in any particular period if an unfavorable outcome results, the Company does not believe that this matter will have a material adverse effect on the Company's overall financial condition or liquidity.

The Company and its subsidiaries also are involved in numerous ongoing routine legal and regulatory proceedings related to their operations. With respect to each of these proceedings, the Company has determined either that a loss is not reasonably possible or that the estimated loss or range of loss, if any, is not material to the condensed consolidated financial statements as a whole.

Note 14 – Business Combinations

During the three and nine months ended September 30, 2017, the Company completed acquisitions for an aggregate purchase price of $87.3 million and $91.1 million, respectively. The Company has recorded preliminary fair value estimates for the assets acquired and liabilities assumed, which are subject to change pending completion of the Company's purchase price allocation. The Company allocates the purchase price of each acquisition to the assets acquired and liabilities assumed using a variety of valuation techniques, including discounted cash flow analysis. These acquisitions have been included in the Company's title insurance and services segment.

During the three and nine months ended September 30, 2016, the Company completed acquisitions for an aggregate purchase price of $56.9 million and $75.5 million, respectively. These acquisitions have been included in the Company's title insurance and services segment.

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Note 15 – Segment Information

The Company consists of the following reportable segments and a corporate function:

- The Company's title insurance and services segment issues title insurance policies on residential and commercial property in the United States and offers similar or related products and services internationally. This segment also provides closing and/or escrow services; accommodates tax-deferred exchanges of real estate; provides products, services and solutions involving the use of real property related data designed to mitigate risk or otherwise facilitate real estate transactions; maintains, manages and provides access to title plant records and images; provides evidence of title; and provides banking, trust, document custodial and investment advisory services. The Company, through its principal title insurance subsidiary and such subsidiary's affiliates, transacts its title insurance business through a network of direct operations and agents. Through this network, the Company issues policies in the 49 states that permit the issuance of title insurance policies and the District of Columbia. The Company also offers title insurance and other insurance and guarantee products, as well as related settlement services in foreign countries, including Canada, the United Kingdom, Australia, South Korea and various other established and emerging markets.
- The Company's specialty insurance segment issues property and casualty insurance policies and sells home warranty products. The property and casualty insurance business provides insurance coverage to residential homeowners and renters for liability losses and typical hazards such as fire, theft, vandalism and other types of property damage. This business is licensed to issue policies in all 50 states and the District of Columbia and actively issues policies in 47 states. The majority of policy liability is in the western United States, including approximately 65% in California. In certain markets it also offers preferred risk auto insurance to better compete with other carriers offering bundled home and auto insurance. The home warranty business provides residential service contracts that cover residential systems, such as heating and air conditioning systems, and certain appliances against failures that occur as the result of normal usage during the coverage period. This business currently operates in 39 states and the District of Columbia.

The corporate function consists primarily of certain financing facilities as well as the corporate services that support the Company's business operations.

Selected financial information about the Company's operations, by segment, is as follows:

For the three months ended September 30, 2017:

(in thousands)	Revenues	Income (loss) before income taxes	Depreciation and amortization	Capital expenditures
Title Insurance and Services	$1,397,262	$ 181,199	$ 34,363	$ 33,750
Specialty Insurance	118,481	6,178	1,599	2,015
Corporate	4,108	(169,415)	38	—
Eliminations	(283)	—	—	—
	$1,519,568	$ 17,962	$ 36,000	$ 35,765

For the three months ended September 30, 2016:

(in thousands)	Revenues	Income (loss) before income taxes	Depreciation and amortization	Capital expenditures
Title Insurance and Services	$1,395,727	$ 188,706	$ 22,994	$ 41,948
Specialty Insurance	109,782	1,781	1,401	844
Corporate	2,855	(23,556)	96	—
Eliminations	(20)	—	—	—
	$1,508,344	$ 166,931	$ 24,491	$ 42,792

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For the nine months ended September 30, 2017:

(in thousands)	Revenues	Income (loss) before income taxes	Depreciation and amortization	Capital expenditures
Title Insurance and Services	$3,937,119	$ 476,746	$ 91,471	$ 100,059
Specialty Insurance	343,908	25,779	4,697	5,797
Corporate	10,872	(216,529)	124	—
Eliminations	(859)	—	—	—
	$4,291,040	$ 285,996	$ 96,292	$ 105,856

For the nine months ended September 30, 2016:

(in thousands)	Revenues	Income (loss) before income taxes	Depreciation and amortization	Capital expenditures
Title Insurance and Services	$3,750,118	$ 448,815	$ 66,510	$ 99,887
Specialty Insurance	317,246	18,744	4,107	3,928
Corporate	4,265	(71,429)	288	—
Eliminations	(40)	—	—	—
	$4,071,589	$ 396,130	$ 70,905	$ 103,815

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

THIS QUARTERLY REPORT ON FORM 10-Q CONTAINS 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 CAN BE IDENTIFIED BY THE FACT THAT THEY DO NOT RELATE STRICTLY TO HISTORICAL OR CURRENT FACTS AND MAY CONTAIN THE WORDS "BELIEVE," "ANTICIPATE," "EXPECT," "INTEND," "PLAN," "PREDICT," "ESTIMATE," "PROJECT," "WILL BE," "WILL CONTINUE," "WILL LIKELY RESU OTHER SIMILAR WORDS AND PHRASES OR FUTURE OR CONDITIONAL VERBS SUCH AS "WILL," "MAY," "MIGHT," "SHOULD," "WOULD," OR "COULD." THESE FORWARD-LOOKING STATEMENTS INCLUDE, WITHOUT LIMITATION, STATEMENTS REGARDING FUTURE OPERATIONS, PERFORMANCE, FINANCIAL CONDITION, PROSPECTS, PLANS AND STRATEGIES. THESE FORWARD-LOOKING STATEMENTS ARE BASED ON CURRENT EXPECTATIONS AND ASSUMPTIONS THAT MAY PROVE TO BE INCORRECT.

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 THE FACTORS SET FORTH ON PAGES 3-4 OF THIS QUARTERLY REPORT. 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.

This Management's Discussion and Analysis contains certain financial measures that are not presented in accordance with U.S. generally accepted accounting principles ("GAAP"), including adjusted information and other revenues, adjusted personnel costs and adjusted other operating expenses, in each case excluding the effects of recent acquisitions. The Company is presenting these non-GAAP financial measures because they provide the Company's management and readers of this Quarterly Report on Form 10-Q with additional insight into the operational performance of the Company relative to earlier periods. The Company does not intend for these non-GAAP financial measures to be a substitute for any GAAP financial information. In this Quarterly Report on Form 10-Q, these non-GAAP financial measures have been presented with, and reconciled to, the most directly comparable GAAP financial measures. Readers of this Quarterly Report on Form 10-Q should use these non-GAAP financial measures only in conjunction with the comparable GAAP financial measures.

CRITICAL ACCOUNTING ESTIMATES

There have been no material changes to the Company's critical accounting estimates since the filing of its Annual Report on Form 10-K for the year ended December 31, 2016. A summary of the Company's accounting policies that it considers to be the most dependent on the application of estimates and assumptions can be found in the Management's Discussion and Analysis section of the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

Recently Adopted Accounting Pronouncements

In October 2016, the Financial Accounting Standards Board ("FASB") issued updated guidance to amend the consolidation guidance on how a reporting entity that is the single decision maker of a variable interest entity should treat indirect interests in the entity held through related parties that are under common control with the reporting entity when determining whether it is the primary beneficiary of that variable interest entity. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2016. The adoption of this guidance

had no impact on the Company's condensed consolidated financial statements.

In March 2016, the FASB issued updated guidance intended to simplify and improve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of such awards as either equity or liabilities and classification on the statement of cash flows. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2016. While the adoption of this guidance did have an impact on the Company's effective income tax rate for 2017, it did not have a material impact on the Company's condensed consolidated financial statements. See Note 7 Income Taxes to the condensed consolidated financial statements for further discussion of the Company's effective income tax rates. Beginning in 2017, excess tax benefits from share-based compensation are presented in the condensed consolidated statements of cash flows in cash flows from operating activities within net change in income tax accounts.

In March 2016, the FASB issued updated guidance intended to simplify the accounting treatment for investments that become qualified for the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2016. The adoption of this guidance had no impact on the Company's condensed consolidated financial statements.

Pending Accounting Pronouncements

In May 2017, the FASB issued updated guidance intended to reduce diversity in practice by clarifying which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. The Company does not expect the adoption of this guidance to have a material impact on its condensed consolidated financial statements.

In March 2017, the FASB issued updated guidance to amend the amortization period for certain purchased callable debt securities held at a premium to shorten the amortization period for the premium to the earliest call date. The updated guidance is intended to more closely align the amortization period of premiums and discounts to expectations incorporated in market pricing on the underlying securities, and is effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. The Company does not expect the adoption of this guidance to have a material impact on its condensed consolidated financial statements.

In March 2017, the FASB issued updated guidance intended to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost through the disaggregation of the service cost component from the other components of net benefit cost. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. The Company does not expect the adoption of this guidance to have a material impact on its condensed consolidated financial statements.

In January 2017, the FASB issued updated guidance intended to simplify how an entity tests goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Under the updated guidance, an entity will perform its goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, with the loss recognized limited to the total amount of goodwill allocated to that reporting unit. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted. The Company does not expect the adoption of this guidance to have a material impact on its condensed consolidated financial statements.

In January 2017, the FASB issued updated guidance to clarify the definition of a business with the objective of providing guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. The Company does not expect the adoption of this guidance to have a material impact on its condensed consolidated financial statements.

In November 2016, the FASB issued updated guidance intended to reduce the diversity in practice on presenting restricted cash or restricted cash equivalents in the statement of cash flows. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. The Company does not expect the adoption of this guidance to have a material impact on its condensed consolidated financial statements.

In October 2016, the FASB issued updated guidance intended to simplify and improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. The updated guidance, which eliminates the intra-entity transfers exception, requires entities to recognize the income tax consequences of intra-entity transfers of assets, other than inventory, when the transfers occur. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. The Company does not expect the adoption of this guidance to have a material impact on its condensed consolidated financial statements.

In August 2016, the FASB issued updated guidance intended to eliminate the diversity in practice regarding the presentation and classification of certain cash receipts and cash payments in the statement of cash flows. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. The Company does not expect the adoption of this guidance to have a material impact on its condensed consolidated statements of cash flows.

In June 2016, the FASB issued updated guidance intended to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The updated guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires the consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted. The Company is currently assessing the impact of the new guidance on its condensed consolidated financial statements.

In February 2016, the FASB issued updated guidance that requires the rights and obligations associated with leasing arrangements be reflected on the balance sheet in order to increase transparency and comparability among organizations. Under the updated guidance, lessees will be required to recognize a right-of-use asset and a liability to make lease payments and disclose key information about leasing arrangements. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. While the Company is currently evaluating the impact the new guidance will have on its condensed consolidated financial statements, the Company expects the adoption of the new guidance will result in a material increase in the assets and liabilities on its condensed consolidated balance sheets and will likely have an insignificant impact on its condensed consolidated statements of income and statements of cash flows.

In January 2016, the FASB issued updated guidance intended to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. In addition to making other targeted improvements to current guidance, the updated guidance also requires all equity investments, except those accounted for under the equity method of accounting or those that result in consolidation of the investee, to be measured at fair value with changes in the fair value recognized through net income. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted in certain circumstances. While the Company expects the adoption of this guidance to impact its condensed consolidated statements of income, the materiality of the impact will depend upon the size of, and level of volatility experienced within, the Company’s equity portfolio.

In May 2014, the FASB issued updated guidance for recognizing revenue from contracts with customers to provide a single, comprehensive revenue recognition model for all contracts with customers to improve comparability within and across industries, and across capital markets. The new revenue standard contains principles that an entity will apply to determine the measurement of revenue and the timing of recognition. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. Revenue from insurance contracts is not within the scope of this guidance. In August 2015, the FASB issued updated guidance which defers the effective date of this guidance by one year. In 2016, the FASB issued additional updates to the new guidance primarily to clarify, among other things, the implementation guidance related to principal versus agent considerations, identifying performance obligations, accounting for licenses of intellectual property, and to provide narrow-scope improvements and additional practical expedients. In February 2017, the FASB issued an additional update to the new guidance to clarify the scope of derecognition guidance for nonfinancial assets and to provide guidance for partial sales of nonfinancial assets. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption prohibited. The Company expects to adopt the new guidance under the modified retrospective approach and, except for certain disclosure requirements, does not expect the new guidance to have a material impact on its condensed consolidated financial statements.

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Results of Operations

Summary of Third Quarter

A substantial portion of the revenues for the Company's title insurance and services segment results from the sale and refinancing of residential and commercial real estate. In the Company's specialty insurance segment, revenues associated with the initial year of coverage in both the home warranty and property and casualty operations are impacted by volatility in residential purchase transactions. Traditionally, the greatest volume of real estate activity, particularly residential purchase activity, has occurred in the spring and summer months. However, changes in interest rates, as well as other changes in general economic conditions in the United States and abroad, can cause fluctuations in the traditional pattern of real estate activity.

According to the Mortgage Bankers Association's October 24, 2017 Mortgage Finance Forecast (the "MBA Forecast"), residential mortgage originations in the United States (based on the total dollar value of the transactions) decreased 16.0% in the third quarter of 2017 when compared with the third quarter of 2016. According to the MBA Forecast, the dollar amount of purchase originations increased 7.4% and refinance originations decreased 42.6%. This volume of domestic residential mortgage origination activity contributed to a 9.9% increase in direct premiums and escrow fees from domestic residential purchase transactions and a 40.4% decrease in direct premiums and escrow fees from domestic refinance transactions in the third quarter of 2017 when compared to the third quarter of 2016.

During the third quarter of 2017, the level of domestic title orders opened per day by the Company's direct title operations decreased by 22.5% when compared with the third quarter of 2016. Residential refinance open orders per day decreased by 46.4%, while purchase and commercial open orders per day increased by 2.2% and 0.5%, respectively. The sharp decline in residential refinance orders opened per day was attributable to higher mortgage interest rates in the third quarter of 2017 when compared to the third quarter of 2016.

In 2016, the Company terminated its funded defined benefit pension plans. In July 2017, the Company completed the transfer of all remaining benefit obligations related to the pension plans to a highly rated insurance company and recognized $152.4 million of pension expense in personnel costs in the corporate segment in the third quarter of 2017. The Company estimates an annual reduction of approximately $22 million in personnel costs related to the pension plans within the corporate segment, based on the level of these expenses for the year ended December 31, 2016. For further discussion of the pension termination see Note 9 Employee Benefit Plans to the condensed consolidated financial statements.

During the third quarter of 2017 and in October 2017, hurricanes and wildfires impacted many regions across the country. The Company does not expect these events to ultimately have a significant impact to its condensed consolidated financial statements. While the Company does not expect a significant impact to its financial results, the Company expects the wildfires in California to negatively impact its property and casualty business in its specialty insurance segment in the fourth quarter of 2017. The Company expects losses from these fires to continue to develop and expects to reach its reinsurance retention limit of $5.0 million.

In addition, the Company continues to monitor developments in its regulatory environment. Currently, federal officials are discussing various potential changes to laws and regulations that could impact the Company's businesses, including changes to the Dodd-Frank Wall Street Reform and Consumer Protection Act, the reform or privatization of government-sponsored enterprises such as the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac), and tax reform, including changes that could affect the mortgage interest deduction, state and local tax deductions and the availability of tax-deferred property exchanges, among others. Changes in these areas, and more generally in the regulatory environment, in which the Company and its customers operate, could impact the volume of mortgage originations in the United States and the Company's

competitive position and results of operations. At this time, the nature and impact of any future changes is unknown.

Title Insurance and Services

	Three Months Ended September 30,				Nine Months Ended September 30,			
ousands, except percentages)	2017	2016	$ Change	% Change	2017	2016	$ Change	% C
nues								
t premiums and escrow fees	$538,063	$544,427	$(6,364)	(1.2)%	$1,492,258	$1,471,338	$20,920	1.4
t premiums	629,186	625,953	3,233	0.5	1,757,796	1,653,990	103,806	6.3
mation and other	199,271	187,979	11,292	6.0	578,549	524,199	54,350	10.
nvestment income	37,901	28,986	8,915	30.8	99,181	81,389	17,792	21.
ealized investment (losses)	(7,159)	8,382	(15,541)	(185.4)	9,335	19,202	(9,867)	(51
	1,397,262	1,395,727	1,535	0.1	3,937,119	3,750,118	187,001	5.0
nses								
onnel costs	421,849	409,345	12,504	3.1	1,222,277	1,154,225	68,052	5.9
iums retained by agents	497,911	495,130	2,781	0.6	1,387,608	1,303,838	83,770	6.4
r operating expenses	196,455	198,147	(1,692)	(0.9)	579,431	559,141	20,290	3.6
sion for policy losses and claims	46,689	64,352	(17,663)	(27.4)	130,037	171,994	(41,957)	(24
eciation and amortization	34,363	22,994	11,369	49.4	91,471	66,510	24,961	37.
ium taxes	17,871	16,301	1,570	9.6	46,973	43,488	3,485	8.0
est	925	752	173	23.0	2,576	2,107	469	22.
	1,216,063	1,207,021	9,042	0.7	3,460,373	3,301,303	159,070	4.8
me before income taxes	$181,199	$188,706	$(7,507)	(4.0)%	$476,746	$448,815	$27,931	6.2
gins	13.0 %	13.5 %	(0.5)%	(3.7)%	12.1 %	12.0 %	0.1 %	0.8

Direct premiums and escrow fees were $538.1 million and $1.5 billion for the three and nine months ended September 30, 2017, respectively, a decrease of $6.4 million, or 1.2%, and an increase of $20.9 million, or 1.4%, when compared with the respective periods of the prior year. The decrease for the three months ended September 30, 2017 was primarily due to a decrease in the domestic title orders closed, partially offset by an increase in the average revenues per order closed. The increase for the nine months ended September 30, 2017 was primarily due to an increase in the average revenues per order closed, partially offset by a decrease in the domestic title orders closed. The average revenues per order closed were $2,298 and $2,215 for the three and nine months ended September 30, 2017, respectively, increases of 23.6% and 15.3% when compared with $1,859 and $1,921 for the respective periods of the prior year. The increases in average revenues per order closed for the three and nine months ended September 30, 2017 were primarily attributable to a shift in the mix of direct revenues generated from lower premium residential refinance products to higher premium residential purchase and commercial products, higher average revenues per order from commercial transactions, higher residential real estate values, and, to a lesser extent, premium and fee increases related to residential purchase transactions. The Company's direct title operations closed 214,300 and 619,500 title orders during the three and nine months ended September 30, 2017, respectively, decreases of 20.2% and 12.2% when compared with 268,400 and 705,700 title orders closed during the respective periods of the prior year. Domestic refinance orders closed per day decreased by 42.5% and 32.9%, while domestic residential purchase orders closed per day increased by 4.8% and 3.9% for the three and nine months ended September 30, 2017 when compared to the same periods of 2016.

Agent premiums were $629.2 million and $1.8 billion for the three and nine months ended September 30, 2017, respectively, increases of $3.2 million, or 0.5%, and $103.8 million, or 6.3%, when compared with the respective

periods of the prior year. Agent premiums are recorded when notice of issuance is received from the agent, which is generally when cash payment is received by the Company. As a result, there is generally a delay between the agent's issuance of a title policy and the Company's recognition of agent premiums. Therefore, current quarter agent premiums typically reflect prior quarter mortgage origination activity. The increase in agent premiums for the three months ended September 30, 2017 is generally consistent with the 1.8% increase in the Company's direct premiums and escrow fees in the second quarter of 2017 as compared with the second quarter of 2016.

Information and other revenues primarily consist of revenues generated from fees associated with title search and related reports, title and other real property records and images, other non-insured settlement services, and risk mitigation products and services. These revenues generally trend with direct premiums and escrow fees but are typically less volatile since a portion of the revenues are subscription based and do not fluctuate with transaction volumes.

Information and other revenues were $199.3 million and $578.5 million for the three and nine months ended September 30, 2017, respectively, increases of $11.3 million, or 6.0%, and $54.4 million, or 10.4%, when compared with the respective periods of the prior year. The increases were driven by recent acquisitions. Excluding the $23.6 million and $68.2 million impact of new acquisitions for the three and nine months ended September 30, 2017, respectively, information and other revenues decreased $12.3 million, or 6.6%, and $13.8 million, or 2.6%, when compared with the respective periods of the prior year. The decreases in information and other revenues for the three and nine months ended September 30, 2017, adjusted for the impact of acquisitions, were primarily due to lower demand for the Company's default information products driven by lower loss mitigation activities and lower demand for the Company's valuation services, fulfillment services, and automated products driven by lower mortgage origination volumes. The decrease for the nine months ended September 30, 2017 was partially offset by higher fees earned on non-insured products related to commercial transactions.

Net investment income totaled $37.9 million and $99.2 million for the three and nine months ended September 30, 2017, respectively, increases of $8.9 million, or 30.8%, and $17.8 million, or 21.9%, when compared with the respective periods of the prior year. The increases were primarily attributable to increases in short-term interest rates which drove higher interest income on balances held in connection with the Company's tax-deferred property exchange business, the floating rate mortgage-backed securities portfolio, and escrow deposits. In addition, interest income from the debt securities portfolio increased due to higher average balances when compared to the same periods of the prior year.

Net realized investment losses totaled $7.2 million for the three months ended September 30, 2017 and net realized investment gains totaled $9.3 million for the nine months ended September 30, 2017. Net realized investment losses for the three months ended September 30, 2017 primarily related to a $6.6 million loss recognized when the Company purchased the remaining equity ownership in an investment in an affiliate during the third quarter of 2017. This investment, which was previously accounted for using the equity method of accounting, is now consolidated for financial reporting purposes. Net realized investment gains for the nine months ended September 30, 2017 primarily related to sales of equity securities, partially offset by the third quarter loss of $6.6 million described above. Net realized investment gains totaled $8.4 million and $19.2 million for the three and nine months ended September 30, 2016, respectively, and were primarily from the sales of debt and equity securities. Net realized investment gains for the nine months ended September 30, 2016 also included gains from the sales of real estate and certain regional operations.

The title insurance and services segment (primarily direct operations) is labor intensive; accordingly, a major expense component is personnel costs. This expense component is affected by two primary factors: the need to monitor personnel changes to match the level of corresponding or anticipated new orders and the need to provide quality service.

Personnel costs were $421.8 million and $1.2 billion for the three and nine months ended September 30, 2017, respectively, increases of $12.5 million, or 3.1%, and $68.1 million, or 5.9%, when compared with the respective periods of the prior year. The increases were primarily driven by recent acquisitions. Excluding the $17.4 million and $50.1 million impact of new acquisitions for the three and nine months ended September 30, 2017, respectively, personnel costs decreased $4.9 million, or 1.2%, and increased $18.0 million, or 1.6%, when compared with the respective periods of the prior year. The decrease in personnel costs for the three months ended September 30, 2017, adjusted for the impact of new acquisitions, was primarily attributable to decreases in temporary labor costs, overtime expense and medical insurance expense. These decreases were partially offset by $9.0 million in out-of-period adjustments recorded to correct for errors in recording certain personnel costs. The increase in personnel costs for the nine months ended September 30, 2017, adjusted for the impact of new acquisitions, was primarily attributable to increased salary expense due to an increase in average salaries; an increase in incentive compensation due to higher revenue and profitability; and the $9.0 million in out-of-period adjustments recorded to correct for errors in recording

certain personnel costs; partially offset by a decrease in temporary labor costs and overtime expense. For further discussion of the out-of-period adjustments see Note 1 Basis of Condensed Consolidated Financial Statements.

Agents retained $497.9 million and $1.4 billion of title premiums generated by agency operations for the three and nine months ended September 30, 2017, respectively, which compares with $495.1 million and $1.3 billion for the respective periods of the prior year. The percentage of title premiums retained by agents was 79.1% and 78.9% for the three and nine months ended September 30, 2017, respectively, compared to 79.1% and 78.8% for the respective periods of the prior year.

Other operating expenses for the title insurance and services segment were $196.5 million and $579.4 million for the three and nine months ended September 30, 2017, respectively, a decrease of $1.7 million, or 0.9%, and an increase of $20.3 million, or 3.6%, when compared with the respective periods of the prior year. These expenses for the three months ended September 30, 2017 were essentially unchanged when compared with the three months ended September 30, 2016 and the increase for the nine months ended September 30, 2017 was driven by recent acquisitions. Excluding the $10.5 million and $28.6 million impact of new acquisitions for the three and nine months ended September 30, 2017, respectively, other operating expenses decreased $12.2 million, or 6.2%, and $8.3 million, or 1.5%, when compared with the respective periods of the prior year. The decrease for the three months ended September 30, 2017, adjusted for the impact of acquisitions, was primarily attributable to lower production related costs driven by lower order volumes, lower legal expense, lower bad debt expense, and lower software expenses when compared to the same period of the prior year. The decrease for the nine months ended September 30, 2017, adjusted for the impact of acquisitions, was primarily attributable to lower software related expenses, lower legal expense, and higher foreign currency exchange gains; partially offset by the first quarter of 2016 benefitting from the recovery of an insurance claim.

The provision for policy losses and other claims, expressed as a percentage of title insurance premiums and escrow fees, was 4.0% for the three and nine months ended September 30, 2017 compared to 5.5% for the three and nine months ended September 30, 2016. The current quarter rate of 4.0% reflects the ultimate loss rate for the current policy year and no change in the loss reserve estimates for prior policy years. The third quarter of 2016 rate of 5.5% reflected the ultimate loss rate of 5.0% for the 2016 policy year and a $5.8 million net increase in the loss reserve estimates for prior policy years.

Depreciation and amortization expense was $34.4 million and $91.5 million for the three and nine months ended September 30, 2017, respectively, increases of $11.4 million, or 49.4%, and $25.0 million, or 37.5%, when compared with the respective periods of the prior year. The increases were primarily attributable to $4.7 million in out-of-period adjustments recorded to fully amortize certain title plant imaging assets that were misclassified as title plants assets and higher amortization expense associated with internally developed technology and purchased software licenses. The higher amortization expense related to internally developed technology included $1.2 million and $5.3 million of accelerated amortization for the three and nine months ended September 30, 2017, respectively, resulting from a shortened useful life for a software interface. For further discussion of the out-of-period adjustments see Note 1 Basis of Condensed Consolidated Financial Statements.

Premium taxes were $17.9 million and $47.0 million for the three and nine months ended September 30, 2017, respectively, increases of $1.6 million, or 9.6%, and $3.5 million, or 8.0%, respectively, compared to $16.3 million and $43.5 million for the same periods of the prior year. Premium taxes as a percentage of title insurance premiums and escrow fees were 1.5% and 1.4% for the three and nine months ended September 30, 2017, respectively, compared to 1.4% for the three and nine months ended September 30, 2016.

The profit margins for the title insurance business reflect the high cost of performing the essential services required before insuring title, whereas the corresponding revenues are subject to regulatory and competitive pricing restraints. Due to this relatively high proportion of fixed costs, title insurance profit margins generally improve as closed order volumes increase. Title insurance profit margins are affected by the composition (residential or commercial) and type (resale, refinancing or new construction) of real estate activity. Title insurance profit margins are also affected by the percentage of title insurance premiums generated by agency operations. Profit margins from direct operations are generally higher than from agency operations due primarily to the large portion of the premium that is retained by the agent. Pre-tax margins for the three and nine months ended September 30, 2017 were 13.0% and 12.1%, respectively, compared with 13.5% and 12.0% in the respective periods of the prior year.

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Specialty Insurance

(in thousands, except percentages)	Three Months Ended September 30, 2017	2016	$ Change	% Change	Nine Months Ended September 30, 2017	2016	$ Change	% Change
Revenues								
Direct premiums	$113,041	$105,299	$7,742	7.4 %	$326,935	$304,277	$22,658	7.4 %
Information and other	2,814	754	2,060	273.2	8,427	2,394	6,033	252.0
Net investment income	2,468	2,595	(127)	(4.9)	7,118	7,085	33	0.5
Net realized investment gains	158	1,134	(976)	(86.1)	1,428	3,490	(2,062)	(59.1)
	118,481	109,782	8,699	7.9	343,908	317,246	26,662	8.4
Expenses								
Personnel costs	18,478	17,347	1,131	6.5	53,632	51,149	2,483	4.9
Other operating expenses	16,537	14,603	1,934	13.2	50,588	43,563	7,025	16.1
Provision for policy losses and other claims	73,660	72,663	997	1.4	203,658	194,479	9,179	4.7
Depreciation and amortization	1,599	1,401	198	14.1	4,697	4,107	590	14.4
Premium taxes	2,029	1,987	42	2.1	5,554	5,204	350	6.7
	112,303	108,001	4,302	4.0	318,129	298,502	19,627	6.6
Income before income taxes	$6,178	$1,781	$4,397	246.9%	$25,779	$18,744	$7,035	37.5 %
Margins	5.2 %	1.6 %	3.6 %	225.0%	7.5 %	5.9 %	1.6 %	27.1 %

Direct premiums were $113.0 million and $326.9 million for the three and nine months ended September 30, 2017, respectively, increases of $7.7 million, or 7.4%, and $22.7 million, or 7.4%, when compared with the respective periods of the prior year. The increases were attributable to higher premiums earned in the home warranty business driven by an increase in the number of home warranty residential service contracts issued and an increase in the average price charged per contract.

Information and other revenues were $2.8 million and $8.4 million for the three and nine months ended September 30, 2017, respectively, increases of $2.1 million, or 273.2%, and $6.0 million, or 252.0%, when compared with the respective periods of the prior year. The increases were due to a change in how the Company reports installment fees related to home warranty residential service contracts. Beginning December 31, 2016, the Company reported installment fees in information and other revenues, while prior to December 31, 2016, the Company reported installment fees as a reduction in other operating expenses. This change resulted in an increase to information and other revenues and an increase to other operating expenses of $2.1 million and $6.0 million for the three and nine months ended September 30, 2017, respectively, when compared with the respective periods of the prior year.

Net realized investment gains totaled $0.2 million and $1.4 million for the three and nine months ended September 30, 2017, respectively, and $1.1 million and $3.5 million for the three and nine months ended September 30, 2016, respectively. The net realized gains for the three and nine months ended September 30, 2017 were from the sales of debt and equity securities. The net realized gains for the three months ended September 30, 2016 were primarily from the sales of debt securities. The net realized gains for the nine months ended September 30, 2016 were primarily from the sale of real estate and, to a lesser extent, from the sales of debt securities.

Personnel costs and other operating expenses were $35.0 million and $104.2 million for the three and nine months ended September 30, 2017, respectively, increases of $3.1 million, or 9.6%, and $9.5 million, or 10.0%, when compared with the respective periods of the prior year. The increases were primarily attributable to a change in how the Company reports installment fees related to home warranty residential service contracts which is further discussed above.

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The provision for home warranty claims, expressed as a percentage of home warranty premiums, was 60.1% and 56.1% for the three and nine months ended September 30, 2017, respectively, compared with 69.8% and 63.4% for the respective periods of the prior year. The decrease in the claims rate for the three months ended September 30, 2017 was primarily attributable to a decrease in the frequency and severity of claims and, to a lesser extent, an increase in average revenue per contract. The decrease in the severity of claims was primarily due to more efficient claims management, which was mainly driven by improved rates with contractors and more efficient allocation of claims to contractors. The severity and frequency of home warranty claims also benefited from milder weather conditions when compared to the same quarter of the prior year. The provision for property and casualty claims, expressed as a percentage of property and casualty insurance premiums, was 77.8% and 77.3% for the three and nine months ended September 30, 2017, respectively, compared with 67.3% and 65.0% for the respective periods of the prior year. The increase in the claims rate for the three months ended September 30, 2017 was primarily attributable to an increase in the severity and frequency of claims.

Premium taxes were $2.0 million and $5.6 million for the three and nine months ended September 30, 2017, respectively, compared with $2.0 million and $5.2 million for the respective periods of the prior year. Premium taxes as a percentage of specialty insurance segment premiums were 1.8% and 1.7% for the three and nine months ended September 30, 2017, respectively, compared with 1.9% and 1.7% in the respective periods of the prior year.

A large part of the revenues for the specialty insurance businesses are generated by renewals and are not dependent on the level of real estate activity in the year of renewal. With the exception of loss expense, the majority of the expenses for this segment are variable in nature and therefore generally fluctuate consistent with revenue fluctuations. Accordingly, profit margins for this segment (before loss expense) are relatively constant, although as a result of some fixed expenses, profit margins (before loss expense) should nominally improve as premium revenues increase. Pre-tax margins for the three and nine months ended September 30, 2017 were 5.2% and 7.5%, respectively, compared with 1.6% and 5.9% in the respective periods of the prior year.

Corporate

	Three Months Ended September 30,				Nine Months Ended September 30,			
(in thousands, except percentages)	2017	2016	$ Change	% Change	2017	2016	$ Change	% Change
Revenues								
Net investment income	$4,108	$2,855	$1,253	43.9 %	$10,872	$4,265	$6,607	154.9 %
	4,108	2,855	1,253	43.9	10,872	4,265	6,607	154.9
Expenses								
Personnel costs	159,053	12,000	147,053	NM [1]	183,019	33,755	149,264	442.2
Other operating expenses	6,233	7,215	(982)	(13.6)	19,960	20,309	(349)	(1.7)
Depreciation and amortization	38	96	(58)	(60.4)	124	288	(164)	(56.9)
Interest	8,199	7,100	1,099	15.5	24,298	21,342	2,956	13.9
	173,523	26,411	147,112	557.0	227,401	75,694	151,707	200.4
Loss before income taxes	$(169,415)	$(23,556)	$(145,859)	(619.2)%	$(216,529)	$(71,429)	$(145,100)	(203.1)%

(1) Not meaningful

Net investment income totaled $4.1 million and $10.9 million for the three and nine months ended September 30, 2017, respectively, compared with $2.9 million and $4.3 million for the respective periods of the prior year. The increases in net investment income for the three and nine months ended September 30, 2017 were primarily attributable to higher earnings on investments associated with the Company’s deferred compensation plan when compared to the same periods of 2016.

Corporate personnel costs and other operating expenses were $165.3 million and $203.0 million for the three and nine months ended September 30, 2017, respectively, compared with $19.2 million and $54.1 million for the respective periods of the prior year. The increases were primarily attributable to pension settlement costs of $152.4 million that the Company recognized during the third quarter of 2017 upon completing the termination of its funded defined benefit pension plans. For further discussion of the pension termination see Note 9 Employee Benefit Plans to the condensed consolidated financial statements.

Interest expense was $8.2 million and $24.3 million for the three and nine months ended September 30, 2017, respectively, increases of $1.1 million, or 15.5%, and $3.0 million, or 13.9%, when compared with the respective periods of the prior year. The increases were due to the Company borrowing $160.0 million under its credit facility during September 2016.

Eliminations

The Company's inter-segment eliminations were not material for the three and nine months ended September 30, 2017 and 2016.

INCOME TAXES

The Company's effective income tax rates (income tax expense as a percentage of income before income taxes) were -17.9% and 29.7% for the three and nine months ended September 30, 2017, respectively, compared with 35.7% and 33.7% for the respective periods of the prior year. The Company's effective tax rates for 2017 reflect state tax benefits relating to the termination of the Company's pension plan, as well as the release of reserves relating to tax positions taken on prior year tax returns. In addition, the Company's effective tax rates for 2017 reflect the adoption of new accounting guidance related to the accounting for share-based payment transactions, which requires, among other items, that all excess tax benefits and tax deficiencies associated with share-based payment transactions be recorded in income tax expense rather than in additional paid-in capital, as previously required. The impact to the Company of adopting this guidance was a reduction in income tax expense of $0.1 million and $2.8 million for the three and nine months ended September 30, 2017, respectively. See Note 1 Basis of Condensed Consolidated Financial Statements to the condensed consolidated financial statements for further discussion of the new guidance. The Company's effective tax rates for 2016 reflect the resolution of certain tax authority examinations and tax credits claimed in 2016 and in prior years.

The Company evaluates the realizability of its deferred tax assets by assessing the valuation allowance and makes adjustments to the allowance as necessary. The factors used to assess the likelihood of realization include the Company's forecast of future taxable income and available tax planning strategies that could be implemented to realize the deferred tax assets. The Company's ability or failure to achieve forecasted taxable income in the applicable taxing jurisdictions could affect the ultimate realization of deferred tax assets. Based on actual future operating results in certain jurisdictions, it is possible that the current valuation allowance positions of those jurisdictions could be adjusted in the next 12 months.

NET INCOME AND NET INCOME ATTRIBUTABLE TO THE COMPANY

Net income for the three and nine months ended September 30, 2017 was $21.2 million and $201.2 million, respectively, compared with $107.4 million and $262.5 million for the respective periods of the prior year. Net income attributable to the Company for the three and nine months ended September 30, 2017 was $21.4 million, or $0.19 per diluted share, and $201.9 million, or $1.80 per diluted share, respectively, compared with $107.3 million, or $0.96 per diluted share, and $262.0 million, or $2.36 per diluted share, for the respective periods of the prior year.

LIQUIDITY AND CAPITAL RESOURCES

Cash requirements. The Company generates cash primarily from the sale of its products and services and investment income. The Company's current cash requirements include operating expenses, taxes, payments of principal and interest on its debt, capital expenditures, dividends on its common stock, and may include business acquisitions and repurchases of its common stock. Management forecasts the cash needs of the holding company and its primary subsidiaries and regularly reviews their short-term and long-term projected sources and uses of funds, as well as the asset, liability, investment and cash flow assumptions underlying such forecasts. Based on the Company's ability to generate cash flows from operations, its liquid-asset position and amounts available on its revolving credit facility, management believes that its resources are sufficient to satisfy its anticipated operational cash requirements and obligations for at least the next twelve months.

The substantial majority of the Company's business is dependent upon activity in the real estate and mortgage markets, which are cyclical and seasonal. Periods of increasing interest rates and reduced mortgage financing availability generally have an adverse effect on residential real estate activity and therefore typically decrease the Company's revenues. In contrast, periods of declining interest rates and increased mortgage financing availability generally have a positive effect on residential real estate activity, which typically increases the Company's revenues. Residential purchase activity is typically slower in the winter months with increased volumes in the spring and summer months. Residential refinance activity is typically more volatile than purchase activity and is highly impacted by changes in interest rates. Commercial real estate volumes are less sensitive to changes in interest rates, but fluctuate based on local supply and demand conditions for space and mortgage financing availability.

Cash provided by operating activities amounted to $455.5 million and $252.2 million for the nine months ended September 30, 2017 and 2016, respectively, after claim payments, net of recoveries, of $351.4 million and $351.3 million, respectively. The principal nonoperating uses of cash and cash equivalents for the nine months ended September 30, 2017 and 2016 were purchases of debt and equity securities, business acquisitions, capital expenditures and dividends to common stockholders. The most significant nonoperating sources of cash and cash equivalents for the nine months ended September 30, 2017 were proceeds from the sales and maturities of debt and equity securities and increases in the deposit balances at the Company's banking operations. The most significant nonoperating sources of cash and cash equivalents for the nine months ended September 30, 2016 were proceeds from the sales and maturities of debt and equity securities, increases in the deposit balances at the Company's banking operations and net proceeds from the issuance of debt. The net effect of all activities on total cash and cash equivalents were increases of $135.8 million and $416.0 million for the nine months ended September 30, 2017 and 2016, respectively.

The Company continually assesses its capital allocation strategy, including decisions relating to dividends, stock repurchases, capital expenditures, acquisitions and investments. In August 2017, the Company's board of directors approved an increase in the Company's quarterly cash dividend to 38 cents per common share, representing a 12% increase from the prior level of 34 cents per common share. The dividend increase became effective beginning with the September 2017 dividend. Management expects that the Company will continue to pay quarterly cash dividends at or above the current level. The timing, declaration and payment of future dividends, however, falls within the discretion of the Company's board of directors and will depend upon many factors, including the Company's financial condition and earnings, the capital requirements of the Company's businesses, restrictions imposed by applicable law and any other factors the board of directors deems relevant from time to time.

In March 2014, the Company's board of directors approved an increase in the size of the Company's stock repurchase plan from $150.0 million to $250.0 million, of which $182.4 million remained as of September 30, 2017. Purchases may be made from time to time by the Company in the open market at prevailing market prices or in privately negotiated transactions. The Company did not repurchase any shares of its common stock during the nine months ended September 30, 2017 and as of September 30, 2017, had repurchased and retired 3.2 million shares of its common stock under the current authorization for a total purchase price of $67.6 million.

Holding Company. First American Financial Corporation is a holding company that conducts all of its operations through its subsidiaries. The holding company's current cash requirements include payments of principal and interest on its debt, taxes, payments in connection with employee benefit plans, dividends on its common stock and other expenses. The holding company is dependent upon dividends and other payments from its operating subsidiaries to meet its cash requirements. The Company's target is to maintain a cash balance at the holding company equal to at least twelve months of estimated cash requirements. At certain points in time, the actual cash balance at the holding company may vary from this target due to, among other factors, the timing and amount of cash payments made and dividend payments received. Pursuant to insurance and other regulations under which the Company's insurance subsidiaries operate, the amount of dividends, loans and advances available to the holding company is limited, principally for the protection of policyholders. As of September 30, 2017, under such regulations, the maximum amount of dividends, loans and advances available to the holding company from its insurance subsidiaries for the remainder of 2017, without prior approval from applicable regulators, was $759.7 million. However, the timing and amount of dividends paid by the Company's insurance subsidiaries to the holding company falls within the discretion of each insurance subsidiary's board of directors and will depend upon many factors, including the level of total statutory capital and surplus required to support minimum financial strength ratings by certain rating agencies. Such restrictions have not had, nor are they expected to have, an impact on the holding company's ability to meet its cash obligations.

As of September 30, 2017, the holding company's sources of liquidity included $259.3 million of cash and cash equivalents and $540.0 million available on the Company's revolving credit facility. Management believes that

liquidity at the holding company is sufficient to satisfy anticipated cash requirements and obligations for at least the next twelve months.

Financing. The Company maintains a credit agreement with JPMorgan Chase Bank, N.A. in its capacity as administrative agent and the lenders party thereto. The credit agreement is comprised of a $700.0 million revolving credit facility. Unless terminated earlier, the revolving loan commitments under the credit agreement will terminate on May 14, 2019. The obligations of the Company under the credit agreement are neither secured nor guaranteed. Proceeds under the credit agreement may be used for general corporate purposes. At September 30, 2017, outstanding borrowings under the facility totaled $160.0 million at an interest rate of 2.99%.

The credit agreement includes an expansion option that permits the Company, subject to satisfaction of certain conditions, to increase the revolving commitments and/or add term loan tranches ("Incremental Term Loans") in an aggregate amount not to exceed $150.0 million. Incremental Term Loans, if made, may not mature prior to the revolving commitment termination date, provided that amortization may occur prior to such date.

At the Company's election, borrowings under the credit agreement bear interest at either (a) the Alternate Base Rate plus the applicable spread or (b) the Adjusted LIBOR rate plus the applicable spread (in each case as defined in the agreement). The Company may select interest periods of one, two, three or six months or (if agreed to by all lenders) such other number of months for Eurodollar borrowings of loans. The applicable spread varies depending upon the debt rating assigned by Moody's Investor Service, Inc. and/or Standard & Poor's Rating Services. The minimum applicable spread for Alternate Base Rate borrowings is 0.625% and the maximum is 1.00%. The minimum applicable spread for Adjusted LIBOR rate borrowings is 1.625% and the maximum is 2.00%. The rate of interest on Incremental Term Loans will be established at or about the time such loans are made and may differ from the rate of interest on revolving loans.

The credit agreement includes representations and warranties, reporting covenants, affirmative covenants, negative covenants, financial covenants and events of default customary for financings of this type. Upon the occurrence of an event of default the lenders may accelerate the loans. Upon the occurrence of certain insolvency and bankruptcy events of default the loans will automatically accelerate. As of September 30, 2017, the Company was in compliance with the financial covenants under the credit agreement.

In addition to amounts available under its credit facility, certain subsidiaries of the Company are parties to master repurchase agreements which are used as part of the Company's liquidity management activities and to support its risk management activities. In particular, securities loaned or sold under repurchase agreements may be used as short-term funding sources. During the nine months ended September 30, 2017, the Company financed securities for funds received totaling $10.0 million under these agreements. As of September 30, 2017, no amounts remained outstanding under these agreements.

Notes and contracts payable as a percentage of total capitalization was 18.2% and 19.6% at September 30, 2017 and December 31, 2016, respectively.

Investment Portfolio. The Company maintains a high quality, liquid investment portfolio that is primarily held at its insurance and banking subsidiaries. As of September 30, 2017, 92% of the Company's investment portfolio consisted of fixed income securities, of which 60% were United States government-backed or rated AAA and 94% were rated or classified as investment grade. Percentages are based on the estimated fair values of the securities. Credit ratings reflect published ratings obtained from globally recognized securities rating agencies. If a security was rated differently among the rating agencies, the lowest rating was selected. For further information on the credit quality of the Company's investment portfolio at September 30, 2017, see Note 3 Debt and Equity Securities to the condensed consolidated financial statements.

In addition to its debt and equity securities portfolio, the Company maintains certain money-market and other short-term investments.

Off-balance sheet arrangements. The Company administers escrow deposits and trust assets as a service to its customers. Escrow deposits totaled $7.9 billion and $6.8 billion at September 30, 2017 and December 31, 2016, respectively, of which $2.8 billion and $2.6 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 temporarily invested in cash and cash equivalents and debt securities, with offsetting liabilities included in deposits in the accompanying condensed consolidated balance sheets. The remaining escrow deposits were held at third-party

financial institutions.

Trust assets held or managed by First American Trust, FSB totaled $3.5 billion and $3.2 billion at September 30, 2017 and December 31, 2016, respectively. 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 and, as a result, the Company has ongoing programs for realizing economic benefits with various financial institutions. The results from 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 each 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 $2.3 billion and $2.0 billion at September 30, 2017 and December 31, 2016, respectively. The like-kind exchange deposits are 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 returns on such proceeds.

At September 30, 2017 and December 31, 2016, the Company was contingently liable for guarantees of indebtedness owed by affiliates and third parties to banks and others totaling $5.6 million and $7.1 million, respectively. The guarantee arrangements relate to promissory notes and other contracts that contingently require the Company to make payments to the guaranteed party upon the failure of debtors to make scheduled payments according to the terms of the notes and contracts. The Company’s maximum potential obligation under these guarantees totaled $5.6 million and $7.1 million at September 30, 2017 and December 31, 2016, respectively, and is limited in duration to the terms of the underlying indebtedness. The Company has not incurred any costs as a result of these guarantees and has not recorded a liability on its condensed consolidated balance sheets related to these guarantees at September 30, 2017 and December 31, 2016.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The Company’s primary exposure to market risk relates to interest rate risk associated with certain financial instruments. Although the Company monitors its risk associated with fluctuations in interest rates, it does not currently use derivative financial instruments on any significant scale to hedge these risks.

There have been no material changes in the Company’s market risks since the filing of its Annual Report on Form 10-K for the year ended December 31, 2016.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

The Company’s chief executive officer and chief financial officer have concluded that, as of September 30, 2017, the end of the quarterly period covered by this Quarterly Report on Form 10-Q, the Company’s disclosure controls and procedures, as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended, were effective, based on the evaluation of these controls and procedures required by Rule 13a-15(b) thereunder.

Changes in Internal Control Over Financial Reporting

There was no change in the Company’s internal control over financial reporting during the quarter ended September 30, 2017, that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II: OTHER INFORMATION

Item 1. Legal Proceedings.

The Company and its subsidiaries are parties to a number of non-ordinary course lawsuits. These lawsuits frequently are similar in nature to other lawsuits pending against the Company's competitors.

For those non-ordinary course lawsuits where the Company has determined that a loss is both probable and reasonably estimable, a liability representing the best estimate of the Company's financial exposure based on known facts has been recorded. Actual losses may materially differ from the amounts recorded.

For a substantial majority of these lawsuits, however, it is not possible to assess the probability of loss. Most of these lawsuits are putative class actions which require a plaintiff to satisfy a number of procedural requirements before proceeding to trial. These requirements include, among others, demonstration to a court that the law proscribes in some manner the Company's activities, the making of factual allegations sufficient to suggest that the Company's activities exceeded the limits of the law and a determination by the court—known as class certification—that the law permits a group of individuals to pursue the case together as a class. In certain instances the Company may also be able to compel the plaintiff to arbitrate its claim on an individual basis. If these procedural requirements are not met, either the lawsuit cannot proceed or, as is the case with class certification or compelled arbitration, the plaintiffs lose the financial incentive to proceed with the case (or the amount at issue effectively becomes de minimis). Frequently, a court's determination as to these procedural requirements is subject to appeal to a higher court. As a result of, among other factors, ambiguities and inconsistencies in the myriad laws applicable to the Company's business and the uniqueness of the factual issues presented in any given lawsuit, the Company often cannot determine the probability of loss until a court has finally determined that a plaintiff has satisfied applicable procedural requirements.

Furthermore, because most of these lawsuits are putative class actions, it is often impossible to estimate the possible loss or a range of loss amounts, even where the Company has determined that a loss is reasonably possible. Generally class actions involve a large number of people and the effort to determine which people satisfy the requirements to become plaintiffs—or class members—is often time consuming and burdensome. Moreover, these lawsuits raise complex factual issues which result in uncertainty as to their outcome and, ultimately, make it difficult for the Company to estimate the amount of damages which a plaintiff might successfully prove. In addition, many of the Company's businesses are regulated by various federal, state, local and foreign governmental agencies and are subject to numerous statutory guidelines. These regulations and statutory guidelines often are complex, inconsistent or ambiguous, which results in additional uncertainty as to the outcome of a given lawsuit—including the amount of damages a plaintiff might be afforded—or makes it difficult to analogize experience in one case or jurisdiction to another case or jurisdiction.

Most of the non-ordinary course lawsuits to which the Company and its subsidiaries are parties challenge practices in the Company's title insurance business, though a limited number of cases also pertain to the Company's other businesses. These lawsuits include, among others, cases alleging, among other assertions, that the Company, one of its subsidiaries and/or one of its agents overcharged or improperly charged fees for products and services, conspired to fix prices, participated in the conveyance of illusory property interests, denied home warranty claims, improperly handled property and casualty claims, and gave items of value to brokers and others as inducements to refer business in violation of certain laws, such as consumer protection laws and laws generally prohibiting unfair business practices, and certain obligations, including

- Chavez v. First American Specialty Insurance Company, filed on June 29, 2017 and pending in the Superior Court of the State of California, County of Los Angeles,
- Downing v. First American Title Insurance Company, et al., filed on July 26, 2016 and pending in the United States District Court for the Northern District of Georgia,
- Kaufman v. First American Financial Corporation, et al., filed on December 21, 2007 and pending in the Superior Court of the State of California, County of Los Angeles,
- Lennen v. First American Financial Corporation, et al., filed on May 19, 2016 and pending in the United States District court for the Middle District of Florida,
- McCormick v. First American Real Estate Services, Inc., et al., filed on December 31, 2015 and pending in the Superior Court of the State of California, County of Orange,
- Sjobring v. First American Financial Corporation, et al., filed on February 25, 2005 and pending in the Superior Court of the State of California, County of Los Angeles,
- Tenefufu vs. First American Specialty Insurance Company, filed on June 1, 2017, pending in the Superior Court of the State of California, County of Sacramento,

- Wilmot v. First American Financial Corporation, et al., filed on April 20, 2007 and pending in the Superior Court of the State of California, County of Los Angeles, and
- In re First American Home Buyers Protection Corporation, consolidated on October 9, 2014 and pending in the United States District Court for the Southern District of California.

All of these lawsuits, except Kaufman and Sjobring, are putative class actions for which a class has not been certified. For the reasons described above, the Company has not yet been able to assess the probability of loss or

estimate the possible loss or the range of loss or, where the Company has been able to make an estimate, the Company believes the amount is not material to the condensed consolidated financial statements as a whole.

While some of the lawsuits described above may be material to the Company's operating results in any particular period if an unfavorable outcome results, the Company does not believe that any of these lawsuits will have a material adverse effect on the Company's overall financial condition or liquidity.

The Company also is a party to non-ordinary course lawsuits other than those described above. With respect to these lawsuits, the Company has determined either that a loss is not reasonably possible or that the estimated loss or range of loss, if any, is not material to the condensed consolidated financial statements as a whole.

The Company's title insurance, property and casualty insurance, home warranty, banking, thrift, trust and investment advisory businesses are regulated by various federal, state and local governmental agencies. Many of the Company's other businesses operate within statutory guidelines. Consequently, the Company may from time to time be subject to examination or investigation by such governmental agencies. Currently, governmental agencies are examining or investigating certain of the Company's operations. These exams or investigations include inquiries into, among other matters, pricing and rate setting practices in the title insurance industry, competition in the title insurance industry, real estate settlement service, customer acquisition and retention practices and agency relationships. With respect to matters where the Company has determined that a loss is both probable and reasonably estimable, the Company has recorded a liability representing its best estimate of the financial exposure based on known facts. While the ultimate disposition of each such exam or investigation is not yet determinable, the Company does not believe that individually or in the aggregate they will have a material adverse effect on the Company's financial condition, results of operations or cash flows. These exams or investigations could, however, result in changes to the Company's business practices which could ultimately have a material adverse impact on the Company's financial condition, results of operations or cash flows.

The Company and its subsidiaries also are involved in numerous ongoing routine legal and regulatory proceedings related to their operations. With respect to each of these proceedings, the Company has determined either that a loss is not reasonably possible or that the estimated loss or range of loss, if any, is not material to the condensed consolidated financial statements as a whole.

Item 1A. Risk Factors.

You should carefully consider each of the following risk factors and the other information contained in this Quarterly Report on Form 10-Q. The Company faces risks other than those listed here, including those that are unknown to the Company and others of which the Company may be aware but, at present, considers immaterial. Because of the following factors, as well as other variables affecting the Company's operating results, past financial performance may not be a reliable indicator of future performance, and historical trends should not be used to anticipate results or trends in future periods.

1. Conditions in the real estate market generally impact the demand for a substantial portion of the Company's products and services and the Company's claims experience

Demand for a substantial portion of the Company's products and services generally decreases as the number of real estate transactions in which its products and services are purchased decreases. The number of real estate transactions in which the Company's products and services are purchased decreases in the following situations:

- when mortgage interest rates are high or rising;
- when the availability of credit, including commercial and residential mortgage funding, is limited; and
- when real estate values are declining.

These circumstances, particularly declining real estate values and the increase in foreclosures that often results therefrom, also tend to adversely impact the Company's title claims experience.

2. Unfavorable economic conditions may have a material adverse effect on the Company

Historically, uncertainty and negative trends in general economic conditions in the United States and abroad, including significant tightening of credit markets and a general decline in the value of real property, have created a difficult operating environment for the Company's businesses and other companies in its industries. In addition, the Company holds investments in entities, such as title agencies and settlement service providers, as well as securities in its investment portfolio, which may be negatively impacted by these conditions. The Company also owns a federal savings bank into which it deposits some of its own funds and some funds held in trust for third parties. This bank invests those funds and any realized losses incurred will be reflected in the Company's consolidated results. The likelihood of such losses, which generally would not occur if the Company were to deposit these funds in an unaffiliated entity, increases when economic conditions are unfavorable. Depending upon the ultimate severity and duration of any economic downturn, the resulting effects on the Company could be materially adverse, including a significant reduction in revenues, earnings and cash flows, challenges to the Company's ability to satisfy covenants or otherwise meet its obligations under debt facilities, difficulties in obtaining access to capital, challenges to the Company's ability to pay dividends at currently anticipated levels, deterioration in the value of its investments and increased credit risk from customers and others with obligations to the Company.

3. Unfavorable economic or other conditions could cause the Company to write off a portion of its goodwill and other intangible assets

The Company performs an impairment test of the carrying value of goodwill and other indefinite-lived intangible assets annually in the fourth quarter, or sooner if circumstances indicate a possible impairment. Finite-lived intangible assets are subject to impairment tests on a periodic basis. Factors that may be considered in connection with this review include, without limitation, underperformance relative to historical or projected future operating results, reductions in the Company's stock price and market capitalization, increased cost of capital and negative macroeconomic, industry and company-specific trends. These and other factors could lead to a conclusion that goodwill or other intangible assets are no longer fully recoverable, in which case the Company would be required to write off the portion believed to be unrecoverable. Total goodwill and other intangible assets reflected on the Company's condensed consolidated balance sheet as of September 30, 2017 are $1.2 billion. Any substantial goodwill and other intangible asset impairments that may be required could have a material adverse effect on the Company's results of operations and financial condition.

4. Failures at financial institutions at which the Company deposits funds could adversely affect the Company

The Company deposits substantial funds in financial institutions. These funds include amounts owned by third parties, such as escrow deposits. Should one or more of the financial institutions at which deposits are maintained fail, there is no guarantee that the Company would recover the funds deposited, whether through Federal Deposit Insurance Corporation coverage or otherwise. In the event of any such failure, the Company also could be held liable for the funds owned by third parties.

5. Changes in government regulation could prohibit or limit the Company's operations, make it more burdensome to conduct such operations or result in decreased demand for the Company's products and services

Many of the Company's businesses, including its title insurance, property and casualty insurance, home warranty, banking, trust and investment businesses, are regulated by various federal, state, local and foreign governmental agencies. These and other of the Company's businesses also operate within statutory guidelines. The industry in which the Company operates and the markets into which it sells its products are also regulated and subject to statutory guidelines. Changes in the applicable regulatory environment, statutory guidelines or interpretations of existing regulations or statutes, enhanced governmental oversight or efforts by governmental agencies to cause customers to

refrain from using the Company's products or services could prohibit or limit its future operations or make it more burdensome to conduct such operations or result in decreased demand for the Company's products and services or a change in our competitive position. The impact of these changes would be more significant if they involve jurisdictions in which the Company generates a greater portion of its title premiums, such as the states of Arizona, California, Florida, Michigan, New York, Ohio, Pennsylvania and Texas. These changes may compel the Company to reduce its prices, may restrict its ability to implement price increases or acquire assets or businesses, may limit the manner in which the Company conducts its business or otherwise may have a negative impact on its ability to generate revenues, earnings and cash flows.

6. Scrutiny of the Company's businesses and the industries in which it operates by governmental entities and others could adversely affect its operations and financial condition

The real estate settlement services industry, an industry in which the Company generates a substantial portion of its revenue and earnings, is subject to continuous scrutiny by regulators, legislators, the media and plaintiffs' attorneys. Though often directed at the industry generally, these groups may also focus their attention directly on the Company's businesses. In either case, this scrutiny may result in changes which could adversely affect the Company's operations and, therefore, its financial condition and liquidity.

Governmental entities have routinely inquired into certain practices in the real estate settlement services industry to determine whether certain of the Company's businesses or its competitors have violated applicable laws, which include, among others, the insurance codes of the various jurisdictions and the Real Estate Settlement Procedures Act and similar state, federal and foreign laws. The CFPB, for example, has actively been utilizing its regulatory authority over the mortgage and real estate markets by bringing enforcement actions against various participants in the mortgage and settlement industries. Departments of insurance in the various states, the CFPB and other federal regulators and applicable regulators in international jurisdictions, either separately or together, also periodically conduct targeted inquiries into the practices of title insurance companies and other settlement services providers in their respective jurisdictions.

Further, from time to time plaintiffs' lawyers may target the Company and other members of the Company's industry with lawsuits claiming legal violations or other wrongful conduct. These lawsuits may involve large groups of plaintiffs and claims for substantial damages. Any of these types of inquiries or proceedings may result in a finding of a violation of the law or other wrongful conduct and may result in the payment of fines or damages or the imposition of restrictions on the Company's conduct which could impact its operations and financial condition. Moreover, these laws and standards of conduct often are ambiguous and, thus, it may be difficult to ensure compliance. This ambiguity may force the Company to mitigate its risk by settling claims or by ending practices that generate revenues, earnings and cash flows.

7. The use of social media by the Company and other parties could result in damage to the Company's reputation and adversely affect its business or results of operations

The Company increasingly utilizes social media to communicate with customers, current and potential employees and other individuals interested in the Company. Information delivered by the Company, or by third parties about the Company, via social media can be easily accessed and rapidly disseminated, and could result in reputational harm, decreased customer loyalty or other issues that could diminish the value of the Company's brand or result in significant liability.

8. Regulation of title insurance rates could adversely affect the Company's results of operations

Title insurance rates are subject to extensive regulation, which varies from state to state. In many states the approval of the applicable state insurance regulator is required prior to implementing a rate change. This regulation could hinder the Company's ability to promptly adapt to changing market dynamics through price adjustments, which could adversely affect its results of operations, particularly in a rapidly declining market.

9. Changes in certain laws and regulations, and in the regulatory environment in which the Company operates, could adversely affect the Company's competitive position and results of operations

Federal officials are currently discussing various potential changes to laws and regulations that could impact the Company's businesses, including changes to the Dodd-Frank Wall Street Reform and Consumer Protection Act, the

reform or privatization of government-sponsored enterprises such as the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac), and tax reform, including changes that could affect the mortgage interest deduction, among others. Changes in these areas, and more generally in the regulatory environment in which the Company and its customers operate, could adversely impact the volume of mortgage originations in the United States and the Company's competitive position and results of operations.

10. The Company may find it difficult to acquire necessary data

Certain data used and supplied by the Company are subject to regulation by various federal, state and local regulatory authorities. Compliance with existing federal, state and local laws and regulations with respect to such data has not had a material adverse effect on the Company's results of operations, financial condition or liquidity to date. Nonetheless, federal, state and local laws and regulations in the United States designed to protect the public from the misuse of personal information in the marketplace and adverse publicity or potential litigation concerning the commercial use of such information may affect the Company's operations and could result in substantial regulatory compliance expense, litigation expense and a loss of revenue. The suppliers of data to the Company face similar burdens. As a result of these and other factors, the Company may find it financially burdensome to acquire necessary data.

11. Changes in the Company's relationships with large mortgage lenders or government–sponsored enterprises could adversely affect the Company

The mortgage market in the United States is concentrated. Due to the consolidated nature of the industry, the Company derives a significant percentage of its revenues from a relatively small base of lenders, and their borrowers, which enhances the negotiating power of these lenders with respect to the pricing and the terms on which they purchase the Company's products and other matters. Similarly, government-sponsored enterprises, because of their significant role in the mortgage process, have significant influence over the Company and other service providers. These circumstances could adversely affect the Company's revenues and profitability. Changes in the Company's relationship with any of these lenders or government-sponsored enterprises, the loss of all or a portion of the business the Company derives from these parties or any refusal of these parties to accept the Company's products and services could have a material adverse effect on the Company.

12. A downgrade by ratings agencies, reductions in statutory capital and surplus maintained by the Company's title insurance underwriters or a deterioration in other measures of financial strength may negatively affect the Company's results of operations and competitive position

Certain of the Company's customers use measurements of the financial strength of the Company's title insurance underwriters, including, among others, ratings provided by ratings agencies and levels of statutory capital and surplus maintained by those underwriters, in determining the amount of a policy they will accept and the amount of reinsurance required. Each of the major ratings agencies currently rates the Company's title insurance operations. The Company's principal title insurance underwriter's financial strength ratings are "A3" by Moody's Investor Services, Inc., "A" by Fitch Ratings, Inc., "A-" by Standard & Poor's Ratings Services and "A" by A.M. Best Company, Inc. These ratings provide the agencies' perspectives on the financial strength, operating performance and cash generating ability of those operations. These agencies continually review these ratings and the ratings are subject to change. Statutory capital and surplus, or the amount by which statutory assets exceed statutory liabilities, is also a measure of financial strength. The Company's principal title insurance underwriter maintained $1.2 billion of total statutory capital and surplus as of December 31, 2016. Accordingly, if the ratings or statutory capital and surplus of these title insurance underwriters are reduced from their current levels, or if there is a deterioration in other measures of financial strength, the Company's results of operations, competitive position and liquidity could be adversely affected.

13. The Company's investment portfolio is subject to certain risks and could experience losses

The Company maintains a substantial investment portfolio, primarily consisting of fixed income securities (including mortgage-backed securities). The investment portfolio also includes money-market and other short-term investments, as well as preferred and common stock. Securities in the Company's investment portfolio are subject to certain economic and financial market risks, such as credit risk, interest rate (including call, prepayment and extension) risk

and/or liquidity risk. The risk of loss associated with the portfolio is increased during periods of instability in credit markets and economic conditions. If the carrying value of the investments exceeds the fair value, and the decline in fair value is deemed to be other-than-temporary, the Company will be required to write down the value of the investments, which could have a material adverse effect on the Company's results of operations, statutory surplus and financial condition.

14. Actual claims experience could materially vary from the expected claims experience reflected in the Company's reserve for incurred but not reported claims

The Company maintains a reserve for incurred but not reported ("IBNR") claims pertaining to its title, escrow and other insurance and guarantee products. The majority of this reserve pertains to title insurance policies, which are long-duration contracts with the majority of the claims reported within the first few years following the issuance of the policy. Generally, 70% to 80% of claim amounts become known in the first six years of the policy life, and the majority of IBNR reserves relate to the six most recent policy years. Changes in expected ultimate losses and corresponding loss rates for recent policy years are considered likely and could result in a material adjustment to the IBNR reserves. Based on historical experience, management believes a 50 basis point change to the loss rates for recent policy years, positive or negative, is reasonably likely given the long duration nature of a title insurance policy. For example, if the expected ultimate losses for each of the last six policy years increased or decreased by 50 basis points, the resulting impact on the Company's IBNR reserve would be an increase or decrease, as the case may be, of $115.9 million. A material change in expected ultimate losses and corresponding loss rates for older policy years is also possible, particularly for policy years with loss ratios exceeding historical norms. The estimates made by management in determining the appropriate level of IBNR reserves could ultimately prove to be materially different from actual claims experience.

15. The issuance of the Company's title insurance policies and related activities by title agents, which operate with substantial independence from the Company, could adversely affect the Company

The Company's title insurance subsidiaries issue a significant portion of their policies through title agents that operate with a substantial degree of independence from the Company. While these title agents are subject to certain contractual limitations that are designed to limit the Company's risk with respect to their activities, there is no guarantee that the agents will fulfill their contractual obligations to the Company. In addition, regulators are increasingly seeking to hold the Company responsible for the actions of these title agents and, under certain circumstances, the Company may be held liable directly to third parties for actions (including defalcations) or omissions of these agents. Recent case law in certain states also suggests that the Company is liable for the actions or omissions of its agents in those states, regardless of contractual limitations. As a result, the Company's use of title agents could result in increased claims on the Company's policies issued through agents and an increase in other costs and expenses.

16. The Company's risk management framework could prove inadequate, resulting in financial and/or reputational harm

The Company's risk management framework is designed to identify, monitor and mitigate risks that could have a negative impact on the Company's financial condition or reputation. This framework includes departments or groups dedicated to enterprise risk management, information security, disaster recovery and other information technology-related risks, business continuity, legal and compliance, compensation structures and other human resources matters, vendor management and internal audit, among others. While many of the processes overseen by these departments function at the enterprise level, many also function through, or rely to a certain degree upon, risk mitigation efforts in local operating groups. Similarly, with respect to the risks the Company assumes in the ordinary course of its business through the issuance of title insurance policies and the provision of related products and services, the Company employs localized as well as centralized risk mitigation efforts. These efforts include the implementation of underwriting policies and procedures and other mechanisms for assessing risk. Underwriting title insurance policies and making other risk-assumption decisions frequently involves a substantial degree of individual judgment and, accordingly, underwriters are maintained at the regional, divisional and corporate levels with varying degrees of underwriting authority. These individuals may be encouraged by customers or others to assume risks or to expeditiously make risk determinations. If the Company's risk mitigation efforts prove inadequate, the Company may

experience significant financial and/or reputational harm.

17. Systems damage, failures, interruptions and intrusions, and unauthorized data disclosures may disrupt the Company's business, harm the Company's reputation, result in material claims for damages or otherwise adversely affect the Company

The Company uses computer systems to receive, process, store and transmit business information, including highly sensitive non-public personal information as well as data from suppliers and other information upon which its business relies. It also uses these systems to manage substantial cash, investment assets, bank deposits, trust assets and escrow account balances on behalf of the Company and its customers, among other activities. Many of the Company's products, services and solutions involving the use of real property related data are fully reliant on its systems and are only available electronically. Accordingly, for a variety of reasons, the integrity of the Company's computer systems and the protection of the information that resides on those systems are critically important to its successful operation. The Company's core computer systems are primarily located in a data center it manages and secondarily in a disaster recovery data center maintained by a third party. The Company is currently engaged in a multi-year process of transitioning to third party cloud-based hosting of its computer systems.

The Company's computer systems and systems used by its agents, suppliers and customers have been subject to, and are likely to continue to be the target of, computer viruses, cyber attacks, phishing attacks and other malicious activity. These attacks have increased in frequency and sophistication in recent years. Further, certain other potential causes of system damage or other negative system-related events are wholly or partially beyond the Company's control, such as natural disasters, vendor failures to satisfy service level requirements and power or telecommunications failures. These incidents, regardless of their underlying causes, could expose the Company to system-related damage, failures, interruptions, and other negative events or could otherwise disrupt the Company's business and could also result in the loss or unauthorized release, gathering, monitoring or destruction of confidential, proprietary and other information pertaining to the Company, its customers, employees, agents or suppliers.

Certain laws and contracts the Company has entered into require it to notify various parties, including consumers or customers, in the event of certain actual or potential data breaches or systems failures. These notifications can result, among other things, in the loss of customers, lawsuits, adverse publicity, diversion of management's time and energy, the attention of regulatory authorities, fines and disruptions in sales. Further, the Company's financial institution customers have obligations to safeguard their computer systems and sensitive information and it may be bound contractually and/or by regulation to comply with the same requirements. If the Company fails to comply with applicable regulations and contractual requirements, it could be exposed to lawsuits, governmental proceedings or the imposition of fines, among other consequences.

Accordingly, any inability to prevent or adequately respond to the issues described above could disrupt the Company's business, inhibit its ability to retain existing customers or attract new customers and/or result in financial losses, litigation, increased costs or other adverse consequences which could be material to the Company.

18. Errors and fraud involving the transfer of funds may result in material financial losses or harm the Company's reputation

The Company relies on its systems, employees and domestic and international banks to transfer funds. These transfers are susceptible to user input error, fraud, system interruptions, incorrect processing and similar errors that could result in lost funds or delayed transactions. The Company's email and computer systems and systems used by its agents, customers and other parties involved in a transaction have been subject to, and are likely to continue to be the target of, fraudulent attacks, including attempts to cause the Company or its agents to improperly transfer funds. These attacks have increased in frequency and sophistication in recent years. Funds transferred to a fraudulent recipient are often not recoverable. In certain instances the Company may be liable for those unrecovered funds. The controls and procedures used by the Company to prevent transfer errors and fraud may prove inadequate, resulting in financial

losses, reputational harm, loss of customers or other adverse consequences which could be material to the Company.

19. The Company’s use of a global workforce involves risks that could negatively impact the Company

The Company utilizes lower cost labor in countries such as India and the Philippines, among others. These countries are subject to relatively high degrees of political and social instability and may lack the infrastructure to withstand natural disasters. Such disruptions could decrease efficiency and increase the Company’s costs. Weakness of the United States dollar in relation to the currencies used in these countries may also reduce the savings achievable through this strategy. Furthermore, the practice of utilizing labor based in other countries is subject to heightened scrutiny in the United States and, as a result, the Company could face pressure to decrease its use of labor based outside the United States. Laws or regulations that require the Company to use labor based in the United States or effectively increase the cost of the Company’s labor costs abroad also could be enacted. The Company may not be able to pass on these increased costs to its customers.

20. Acquisitions may have an adverse effect on our business

The Company has in the past acquired, and is expected to acquire in the future, other businesses. When businesses are acquired, the Company may not be able to integrate or manage these businesses in such a manner as to realize the anticipated synergies or otherwise produce returns that justify the investment. Acquired businesses may subject the Company to increased regulatory or compliance requirements. The Company may not be able to successfully retain employees of acquired businesses or integrate them, and could lose customers, suppliers or other partners as a result of the acquisitions. For these and other reasons, including changes in market conditions, the projections used to value the acquired businesses may prove inaccurate. In addition, the Company might incur unanticipated liabilities from acquisitions. These and other factors related to acquisitions could have a material adverse effect on the Company's results of operations, financial condition and liquidity. The Company's management also will continue to be required to dedicate substantial time and effort to the integration of its acquisitions. These efforts could divert management's focus and resources from other strategic opportunities and operational matters.

21. As a holding company, the Company depends on distributions from its subsidiaries, and if distributions from its subsidiaries are materially impaired, the Company's ability to declare and pay dividends may be adversely affected; in addition, insurance and other regulations limit the amount of dividends, loans and advances available from the Company's insurance subsidiaries

The Company is a holding company whose primary assets are investments in its operating subsidiaries. The Company's ability to pay dividends is dependent on the ability of its subsidiaries to pay dividends or repay funds. If the Company's operating subsidiaries are not able to pay dividends or repay funds, the Company may not be able to fulfill parent company obligations and/or declare and pay dividends to its stockholders. Moreover, pursuant to insurance and other regulations under which the Company's insurance subsidiaries operate, the amount of dividends, loans and advances available is limited. As of September 30, 2017, under such regulations, the maximum amount of dividends, loans and advances available for the remainder of 2017 from these insurance subsidiaries, without prior approval from applicable regulators, was $759.7 million.

22. Certain provisions of the Company's bylaws and certificate of incorporation may reduce the likelihood of any unsolicited acquisition proposal or potential change of control that the Company's stockholders might consider favorable

The Company's bylaws and certificate of incorporation contain provisions that could be considered "anti-takeover" provisions because they make it harder for a third-party to acquire the Company without the consent of the Company's incumbent board of directors. Under these provisions:

- election of the Company's board of directors is staggered such that only one-third of the directors are elected by the stockholders each year and the directors serve three year terms prior to reelection;
- stockholders may not remove directors without cause, change the size of the board of directors or, except as may be provided for in the terms of preferred stock the Company issues in the future, fill vacancies on the board of directors;
- stockholders may act only at stockholder meetings and not by written consent;
- stockholders must comply with advance notice provisions for nominating directors or presenting other proposals at stockholder meetings; and
- the Company's board of directors may without stockholder approval issue preferred shares and determine their rights and terms, including voting rights, or adopt a stockholder rights plan.

While the Company believes that they are appropriate, these provisions, which may only be amended by the affirmative vote of the holders of approximately 67% of the Company's issued voting shares, could have the effect of discouraging an unsolicited acquisition proposal or delaying, deferring or preventing a change of control transaction that might involve a premium price or otherwise be considered favorably by the Company's stockholders.

Item 6. Exhibits.

Each management contract or compensatory plan or arrangement in which any director or named executive officer of First American Financial Corporation, as defined by Item 402(a)(3) of Regulation S-K (17 C.F.R. §229.402(a)(3)), participates that is included among the exhibits listed on the Exhibit Index is identified on the Exhibit Index by an asterisk (*).

Exhibit No.	Description	Location
3.1	Amended and Restated Certificate of Incorporation of First American Financial Corporation dated May 28, 2010.	Incorporated by reference herein to Exhibit 3.1 to the Current Report on Form 8-K dated June 1, 2010.
3.2	Amended and Restated Bylaws of First American Financial Corporation, effective as of August 16, 2017.	Incorporated by reference herein to Exhibit 3.1 to the Current Report on Form 8-K dated August 16, 2017.
31(a)	Certification by Chief Executive Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.	Attached.
31(b)	Certification by Chief Financial Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.	Attached.
32(a)	Certification by Chief Executive Officer Pursuant to 18 U.S.C. Section 1350.	Attached.
32(b)	Certification by Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.	Attached.
101.INS	XBRL Instance Document.	Attached.
101.SCH	XBRL Taxonomy Extension Schema Document.	Attached.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.	Attached.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.	Attached.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.	Attached.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.	Attached.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FIRST AMERICAN FINANCIAL CORPORATION

(Registrant)

By /s/ Dennis J. Gilmore
Dennis J. Gilmore
Chief Executive Officer

(Principal Executive Officer)

By /s/ Mark E. Seaton
Mark E. Seaton
Chief Financial Officer

(Principal Financial Officer)
Date: October 26, 2017