FIRST AMERICAN CORP
Form 10-K
March 02, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2008

OR

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

For the transition period from _______________ to _______________

Commission file number 001-13585

(Exact name of registrant as specified in its charter)

Incorporated in California	**95-1068610**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer 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

Securities registered pursuant to Section 12(b) of the Act:

Common	**New York Stock Exchange**
(Title of each class)	**(Name of each exchange on which registered)**

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether 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 x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

The aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2008 was $2,400,271,474.

On February 23, 2009, there were 93,000,319 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive proxy statement with respect to the 2009 annual meeting of the shareholders are incorporated by reference in Part III of this report. The definitive proxy statement or an amendment to this Form 10-K will be filed no later than 120 days after the close of registrant s fiscal year.

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CERTAIN STATEMENTS IN THIS ANNUAL REPORT ON FORM 10-K, INCLUDING BUT NOT LIMITED TO THOSE RELATING TO:

THE CONSUMMATION OF THE PROPOSED SPIN-OFF TRANSACTION ANNOUNCED JANUARY 15, 2008 AND THE TIMING, FORM AND TAX FREE NATURE THEREOF;

THE COMPANY S COST CONTROL INITIATIVES, BRAND STRATEGY, AGENCY RELATIONSHIPS, OFFSHORE LEVERAGE, COMMERCIAL AND INTERNATIONAL SALES EFFORTS, AND OTHER PLANS AND FOCUSES WITH RESPECT TO ITS TITLE INSURANCE BUSINESS;

THE NUMBER OF INSTANCES IN WHICH THE COMPANY RETAINS PRIMARY RISK ABOVE $100 MILLION ON TITLE INSURANCE POLICIES FOR COMMERCIAL TRANSACTIONS;

FUTURE PRICE ADJUSTMENTS FOR TITLE INSURANCE POLICIES;

THE COMPANY S CONTINUED EFFORTS TO FOCUS ON ORGANIC GROWTH, PRODUCT DEVELOPMENT AND MARGIN IMPROVEMENT AND TO STREAMLINE ITS BUSINESS;

THE ADEQUACY OF THE THRIFT COMPANY S ALLOWANCE FOR LOAN LOSSES;

THE LIKELY DEGREE OF CHANGE TO THE COMPANY S TITLE INSURANCE LOSS RATES;

THE EFFECT OF LAWSUITS, REGULATORY AUDITS AND INVESTIGATIONS AND OTHER LEGAL PROCEEDINGS ON THE COMPANY S FINANCIAL CONDITION, RESULTS OF OPERATIONS OR CASH FLOWS;

FUTURE PAYMENT OF DIVIDENDS;

THE EFFECTS ON FUTURE CLAIMS OF MORE STRINGENT LENDING STANDARDS, REAL ESTATE PRICES AND VOLATILITY IN THE CURRENT ECONOMIC ENVIRONMENT;

EXPECTED LOSS RATIOS FOR POLICY YEAR 2008 AND OTHER POLICY YEARS;

FUTURE IMPAIRMENT CHARGES RESULTING FROM VOLATILITY IN THE CURRENT MARKETS;

THE IMPACT OF THE CONTINUED WEAKNESS IN THE REAL ESTATE AND MORTGAGE MARKETS ON THE COMPANY S LINES OF BUSINESS;

THE REALIZATION OF TAX BENEFITS ASSOCIATED WITH CERTAIN LOSSES;

THE TIMING OF CLAIM PAYMENTS;

THE IMPACT OF DIVIDEND, LOAN AND ADVANCE RESTRICTIONS ON THE COMPANY S ABILITY TO MEET ITS CASH OBLIGATIONS;

THE SUFFICIENCY OF THE COMPANY S RESOURCES TO SATISFY OPERATIONAL CASH REQUIREMENTS;

THE IMPACT OF THE ADOPTION OF SFAS 141(R) AND SFAS 160 ON THE COMPANY S FINANCIAL STATEMENTS;

CREDIT LOSSES ON THE COMPANY S NON-AGENCY MORTGAGE AND ASSET-BACKED SECURITIES PORTFOLIO;

THE CONTINUED REINVESTMENT OF UNDISTRIBUTED EARNINGS IN THE COMPANY S FOREIGN SUBSIDIARIES;

ESTIMATED NET LOSS AND PRIOR SERVICE CREDIT AND CASH CONTRIBUTIONS RELATING TO PENSION PLANS; AND

THE ANTICIPATED WEIGHTED AVERAGE PERIOD OF RECOGNITION OF STOCK OPTIONS AND RSUs;

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ARE FORWARD LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED, AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. THESE FORWARD-LOOKING STATEMENTS MAY CONTAIN THE WORDS BELIEVE, ANTICIPATE, EXPECT, PLAN, PREDICT, ESTIMATE, PROJECT, WILL BE, WILL CONTINUE, WILL LIKELY RESULT, OR OTHER SIMILAR WORDS AND PHRASES.

RISKS AND UNCERTAINTIES EXIST THAT MAY CAUSE RESULTS TO DIFFER MATERIALLY FROM THOSE SET FORTH IN THESE FORWARD-LOOKING STATEMENTS. FACTORS THAT COULD CAUSE THE ANTICIPATED RESULTS TO DIFFER FROM THOSE DESCRIBED IN THE FORWARD-LOOKING STATEMENTS INCLUDE:

- *INTEREST RATE FLUCTUATIONS;*
- *CHANGES IN THE PERFORMANCE OF THE REAL ESTATE MARKETS;*
- *LIMITATIONS ON ACCESS TO PUBLIC RECORDS AND OTHER DATA;*
- *GENERAL VOLATILITY IN THE CAPITAL MARKETS;*
- *CHANGES IN APPLICABLE GOVERNMENT REGULATIONS;*
- *HEIGHTENED SCRUTINY BY LEGISLATORS AND REGULATORS OF THE COMPANY S TITLE INSURANCE AND SERVICES SEGMENT AND CERTAIN OTHER OF THE COMPANY S BUSINESSES;*
- *THE INABILITY TO CONSUMMATE THE SPIN-OFF TRANSACTION OR TO CONSUMMATE IT IN THE FORM ORIGINALLY PROPOSED AS A RESULT OF, AMONG OTHER FACTORS, THE INABILITY TO OBTAIN NECESSARY REGULATORY APPROVALS, THE FAILURE TO OBTAIN THE FINAL APPROVAL OF THE COMPANY S BOARD OF DIRECTORS, THE INABILITY TO OBTAIN THIRD PARTY CONSENTS OR UNDESIRABLE CONCESSIONS OR ACCOMMODATIONS REQUIRED TO BE MADE TO OBTAIN SUCH CONSENTS, THE LANDSCAPE OF THE REAL ESTATE AND MORTGAGE CREDIT MARKETS, MARKET CONDITIONS, THE INABILITY TO TRANSFER ASSETS INTO THE ENTITY BEING SPUN-OFF OR UNFAVORABLE REACTIONS FROM CUSTOMERS, RATINGS AGENCIES, INVESTORS OR OTHER INTERESTED PERSONS;*
- *THE INABILITY TO REALIZE THE BENEFITS OF THE PROPOSED SPIN-OFF TRANSACTION AS A RESULT OF THE FACTORS DESCRIBED IMMEDIATELY ABOVE, AS WELL AS, AMONG OTHER FACTORS, INCREASED BORROWING COSTS, COMPETITION BETWEEN THE RESULTING COMPANIES, UNFAVORABLE REACTIONS FROM EMPLOYEES, THE INABILITY OF THE FINANCIAL SERVICES COMPANY TO PAY THE ANTICIPATED LEVEL OF DIVIDENDS, THE TRIGGERING OF RIGHTS AND OBLIGATIONS BY THE TRANSACTION OR ANY LITIGATION ARISING OUT OF OR RELATED TO THE SEPARATION;*
- *CONSOLIDATION AMONG THE COMPANY S SIGNIFICANT CUSTOMERS AND COMPETITORS;*
- *CHANGES IN THE COMPANY S ABILITY TO INTEGRATE BUSINESSES WHICH IT ACQUIRES; AND*

OTHER FACTORS DESCRIBED IN THIS ANNUAL REPORT ON FORM 10-K.

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

Item 1. Business

The Company

The Company was founded in 1894 as Orange County Title Company, succeeding to the business of two title abstract companies founded in 1889 and operating in Orange County, California. In 1924, the Company began issuing title insurance policies. In 1986, the Company began a diversification program which involved the acquisition and development of business information companies closely related to the real estate transfer and closing process. In 1998, the Company expanded its diversification program to include business information products and services outside of the real estate transfer and closing process.

On January 15, 2008, the Company announced its intention to separate its financial services companies from its information solutions companies via a spin-off transaction, resulting in two separate publicly traded entities. The Company continues to proceed with preparations for the anticipated separation. However, because of negative trends and continued uncertainty in the real estate and mortgage credit markets and the Company s desire to focus on responding to these conditions, among other factors, the Company s Board of Directors determined on July 30, 2008, to delay the consummation of the transaction. While there has been no change to the intention to separate the Company s financial services businesses from its information solutions businesses, the Company intends to monitor market conditions continuously and to consummate the transaction when such conditions warrant it. The transaction remains subject to customary conditions, including final approval by the Board of Directors, filing and effectiveness of a Form 10 Registration Statement with the Securities and Exchange Commission, receipt of a tax ruling from the Internal Revenue Service and the approval of applicable regulatory authorities.

The Company is a California corporation and has its executive offices at 1 First American Way, Santa Ana, California 92707-5913. The Company s telephone number is (714) 250-3000.

General

The First American Corporation, through its subsidiaries, is engaged in the business of providing business information and related products and services. The Company has five reporting segments that fall within two primary business groups, financial services and information solutions. The financial services group includes the Company s title insurance and services segment and its specialty insurance segment. The title insurance and services segment issues residential and commercial title insurance policies and provides related escrow services, accommodates tax-deferred exchanges and provides investment advisory services, trust services, lending and deposit products and other related products and services. The specialty insurance segment issues property and casualty insurance policies and sells home warranty products. The Company s information and outsourcing solutions, data and analytic solutions and risk mitigation and business solutions segments comprise its information solutions group. The information and outsourcing solutions segment focuses on providing a wide-range of products and services including tax monitoring, flood zone certification and monitoring, building and maintaining geospatial proprietary software and databases, default management services, loan administration and production services, business process outsourcing and asset valuation and management services. The data and analytic solutions segment provides licenses and analyzes data relating to mortgage securities and loans and real property, offers risk management and collateral assessment analytics and provides database access tools and automated appraisal services. The risk mitigation and business solutions segment, which is comprised entirely of the Company s publicly traded First Advantage Corporation subsidiary, provides consumer credit reporting solutions for mortgage and home equity needs, transportation credit reporting, motor vehicle record reporting, criminal records reselling, specialty finance credit reporting, consumer credit reporting, lead generation services, consolidated consumer credit reports and

automotive lead development services for the automotive dealer marketplace, employment background screening, hiring management solutions, occupational health services, tax incentive services, payroll and human resource management, resident screening services, property management software, renters insurance services, computer forensics, electronic discovery, data recovery, due diligence

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reporting and corporate and litigation investigative services. Financial information regarding each of the Company s business segments is included in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and Item 8. Financial Statements and Supplementary Data of Part II of this report.

The Company believes that it holds the number one market share position for many of its products and services, including flood zone determinations, based on the number of flood zone certification reports issued; tax monitoring services, based on the number of loans under service; credit reporting services to the United States mortgage lending industry, based on the number of credit reports issued; credit reports focusing on specialty borrowers in the United States, based on the number of credit reports issued; property data services, based on the number of inquiries; automated appraisals, based on the number of reports sold; and MLS services, based on the number of active desktops. The Company also believes that it holds the number two market share position for home warranty services, based on an extrapolation of market share statistics provided by regulators in Texas and California. The Company believes that during 2008 it held the number one market share position for title insurance, based on premiums written; however, as a result of the purchase by Fidelity National Financial, Inc. of certain title insurance underwriters and other assets of LandAmerica Financial Group, Inc., the Company believes that it now holds the number two market share position for title insurance.

In 2008, 2007 and 2006 the Company derived 63%, 69% and 73% of its consolidated revenues, respectively, from title insurance products. A substantial portion of the revenues for the Company s title insurance and services segment result from or relate to resales and refinancings of residential real estate and, to a lesser extent, from commercial transactions and new home transactions. Over one-half of the revenues in the Company s data and analytic solutions and information and outsourcing solutions segments and approximately 18% of the revenues from the Company s risk mitigation and business solutions segment also depend on real estate activity. The remaining portion of the data and analytic solutions and risk mitigation and business solutions segments revenues are less impacted by, or are isolated from, the volatility of real estate transactions. In the 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 real estate transactions. Traditionally, the greatest volume of real estate activity, particularly residential resale, has occurred in the spring and summer months. However, changes in interest rates, as well as other economic factors, can cause fluctuations in the traditional pattern of real estate activity.

The Financial Services Group

Title Insurance and Services Segment

The title insurance and services segment s principal product is policies of title insurance and related escrow services on residential and commercial property. This segment also accommodates tax-deferred exchanges of real estate and provides investment advisory services, trust services, lending and deposit products and other related products and services.

Overview of Title Insurance Industry

Title to, and the priority of interests in, real estate are determined in accordance with applicable laws. In most real estate transactions, mortgage lenders and purchasers of real estate desire to be protected from loss or damage in the event of certain defects in title. In most parts of the United States, title insurance has become accepted as the most efficient means of providing such protection.

Title Policies. Title insurance policies insure the interests of owners or lenders against defects in the title to real property. These defects include adverse ownership claims, liens, encumbrances or other matters affecting such title which existed at the time a title insurance policy was typically issued and which were not excluded from coverage. Title insurance policies are issued on the basis of a title report, which is typically prepared after a search of the public records, maps, documents and prior title policies to ascertain the existence of easements, restrictions, rights of way, conditions, encumbrances or other matters affecting the title to, or use of, real

property. In certain instances, a visual inspection of the property is also made. To facilitate the preparation of title reports, copies of public records, maps, documents and prior title policies may be compiled and indexed to specific properties in an area. This compilation is known as a title plant.

The beneficiaries of title insurance policies are generally real estate buyers and mortgage lenders. A title insurance policy indemnifies the named insured and certain successors in interest against title defects, liens and encumbrances existing as of the date of the policy and not specifically excepted from its provisions. The policy typically provides coverage for the real property mortgage lender in the amount of its outstanding mortgage loan balance and for the buyer in the amount of the purchase price of the property. In some cases the policy might provide insurance in a greater amount where the buyer anticipates constructing improvements on the property. Coverage under a title insurance policy issued to a mortgage lender generally terminates upon repayment of the mortgage loan. Coverage under a title insurance policy issued to a buyer generally terminates upon the sale of the insured property unless the owner carries back a mortgage or makes certain warranties as to the title.

Before issuing title policies, title insurers typically seek to limit their risk of loss by accurately performing title searches and examinations. The major expenses of a title company relate to such searches and examinations, the preparation of preliminary reports or commitments and the maintenance of title plants, and not from claim losses as in the case of property and casualty insurers.

The Closing Process. Title insurance is essential to the real estate closing process in most transactions involving real property mortgage lenders. In a typical residential real estate sale transaction, a real estate broker, lawyer, developer, lender or closer involved in the transaction orders title insurance on behalf of an insured. Once the order has been placed, a title insurance company or an agent typically conducts a title search to determine the current status of the title to the property. When the search is complete, the title company or agent prepares, issues and circulates a commitment or preliminary report to the parties to the transaction. The commitment or preliminary report identifies the conditions, exceptions and/or limitations that the title insurer intends to attach to the policy and identifies items appearing on the title that must be eliminated prior to closing.

The closing function, sometimes called an escrow in the western United States, is often performed by a lawyer, an escrow company or a title insurance company or agent, generally referred to as a closer . Once documentation has been prepared and signed, and mortgage lender payoff demands are in hand, the transaction is closed. The closer records the appropriate title documents and arranges the transfer of funds to pay off prior loans and extinguish the liens securing such loans. Title policies are then issued insuring the priority of the mortgage of the real property mortgage lender in the amount of its mortgage loan and the buyer in the amount of the purchase price. The time lag between the opening of the title order and the issuance of the title policy is usually between 30 and 90 days. Before a closing takes place, however, the closer would request that the title insurer provide an update to the commitment to discover any adverse matters affecting title and, if any are found, would work with the seller to eliminate them so that the title insurer would issue the title policy subject only to those exceptions to coverage which are acceptable to the title insurer, the buyer and the buyer s lender.

Issuing the Policy: Direct vs. Agency. A title policy can be issued directly by a title insurer or indirectly on behalf of a title insurer through agents, which are not themselves licensed as insurers. Where the policy is issued by a title insurer, the search is performed by or on behalf of the title insurer, and the premium is collected and retained by the title insurer. Where the policy is issued by an agent, the agent typically performs the search, examines the title, collects the premium and retains a portion of the premium. The agent remits the remainder of the premium to the title insurer as compensation for the insurer bearing the risk of loss in the event a claim is made under the policy. The percentage of the premium retained by an agent varies from region to region. A title insurer is obligated to pay title claims in accordance with the terms of its policies, regardless of whether it issues its policy directly or indirectly through an agent.

Premiums. The premium for title insurance is due and earned in full when the real estate transaction is closed. Premiums are generally calculated with reference to the policy amount. The premium charged by a title insurer or an agent is subject to regulation in most areas. Such

regulations vary from state to state.

The Company s Title Insurance Operations

Overview. The Company, through First American Title Insurance Company and its affiliates, transacts the business of title insurance through a network of direct operations and agents. Through this network, the Company issues policies in all states (except Iowa) and the District of Columbia. In Iowa, the Company provides abstracts of title only, because title insurance is not permitted by law. The Company also offers title or related services, either directly or through joint ventures, in Guam, Puerto Rico, the U.S. Virgin Islands, the Bahamas, Australia, Canada, Chile, China, Ireland, Latin America, Mexico, New Zealand, South Korea, the United Kingdom, Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, the Slovak Republic, Turkey, Spain and other territories and countries.

Beginning in 2007, in response to deteriorating market conditions and as part of an effort to enhance its operating efficiency and improve its margins, the Company sharpened its focus on controlling costs by reducing employee count, consolidating offices, centralizing agency and administrative functions, optimizing management structure and rationalizing its brand strategy. The Company plans to continue these efforts where appropriate. In addition, the Company will continue to scrutinize the profitability of its agency relationships, increase its offshore leverage and develop new sales opportunities. Beginning at the end of 2008, the Company initiated an effort to optimize its claims handling process through, among other things, centralization of claims handling, enhanced corporate control over the claims process and claims process standardization. The Company recently accelerated the timetable for completing this effort.

Sales and Marketing. The Company markets its title insurance services to a broad range of customers. The Company believes that its primary source of business is referrals from persons in the real estate community, such as independent escrow companies, real estate agents and brokers, developers, mortgage brokers, mortgage bankers, financial institutions and attorneys. In addition to the referral market, the Company markets its title insurance services directly to large corporate customers and mortgage lenders and servicers. In periods with high levels of foreclosures, mortgage servicers, foreclosure outsourcing providers and investors are important sources of title insurance business and the Company actively markets to these groups. As title agents contribute a large portion of the Company s revenues, the Company also markets its title insurance services to independent agents. The Company s marketing efforts emphasize the combination of its products, the quality and timeliness of its services, process innovation and its national presence.

The Company provides its sales personnel with training in selling techniques, and each branch manager is responsible for hiring the sales staff and ensuring that sales personnel under his or her supervision are properly trained. The Company also maintains a client relations group to coordinate sales to institutional customers, such as lenders, mortgage servicers, foreclosure outsourcing providers and investors.

The Company has expanded its commercial business base primarily through increased commercial sales efforts. Because commercial transactions involve higher coverage amounts and higher premiums, commercial title insurance business generally generates greater profit margins than does residential title insurance business. Though current market conditions have proven difficult for this business, the Company expects that on a relative basis, over the long term, these characteristics still apply. Accordingly, the Company plans to continue to emphasize its commercial sales program. The Company s national commercial services division also has a dedicated sales force. One of the responsibilities of the sales personnel of this division is the coordination of marketing efforts directed at large real estate lenders and companies developing, selling, buying or brokering properties on a multi-state basis.

The Company supplements the efforts of its sales force through general advertising in various trade and professional journals.

Sales outside of the United States accounted for 9.8%, 7.9% and 5.8% of the Company s title revenues in 2008, 2007 and 2006, respectively. Though current market conditions also have proven challenging for the title insurance business internationally, because of the increasing

acceptance of title insurance in foreign markets and

the attractive earnings that have been generated historically, the Company plans to continue to expand its international sales efforts, particularly in Canada, the United Kingdom and other parts of Europe, Australia and South Korea.

Underwriting. Before a title insurance policy is issued, a number of underwriting decisions are made. For example, matters of record revealed during the title search may require a determination as to whether an exception should be taken in the policy. The Company believes that it is important for the underwriting function to operate efficiently and effectively at all decision making levels so that transactions may proceed in a timely manner. To perform this function, the Company has underwriters at the branch level and the regional/divisional level, to whom the Company gives varying levels of underwriting authority.

Agency Operations. The relationship between the Company and each agent is governed by an agency agreement which states the conditions under which the agent is authorized to issue title insurance policies on behalf of the Company. The agency agreement also prescribes the circumstances under which the agent may be liable to the Company if a policy loss occurs. Although such agency agreements typically are terminable without cause after a specified notice period has been met and are terminable immediately for cause, certain agents have negotiated more favorable terms to the agent. Beginning in early 2008, the Company intensified its effort to evaluate all of its agency relationships, including a review of premium splits, deductibles and claims. As a result, the Company has terminated or renegotiated the terms of many of its agency relationships.

The Company has an agent selection process and audit review program. In determining whether to engage an independent agent, the Company obtains information regarding, among other items, the agent s experience and background. The Company maintains loss experience records for each agent and conducts periodic audits of its agents. The Company also maintains agent representatives and agent auditors. Generally, agent auditors perform an examination of the agent s books and records on an annual basis. In addition to these annual reviews, an expanded review will be triggered if certain warning signs are evident. Warning signs that can trigger an expanded review include the failure to implement Company required accounting controls, shortages of escrow funds and failure to remit underwriting fees on a timely basis. Adverse findings in an agency audit may result in the imposition of additional underwriting or other restrictions or, if warranted, termination of the agency relationship.

Title Plants. The Company s network of title plants constitutes one of its principal assets. A title search is conducted by searching the public records or utilizing a title plant. While public title records generally are indexed by reference to the names of the parties to a given recorded document, most title plants arrange their records on a geographic basis. Because of this difference title plant records generally are easier to search. Most title plants also index prior policies, adding to searching efficiency. Many title plants are electronic. Certain offices of the Company utilize jointly owned plants or utilize a plant under a joint user agreement with other title companies. The Company believes its title plants, whether wholly or partially owned or utilized under a joint user agreement, are among the best in the industry.

The Company s title plants are carried on its consolidated balance sheets at original cost, which includes the cost of producing or acquiring interests in title plants or the appraised value of subsidiaries title plants at dates of acquisition for companies accounted for as purchases. Thereafter, the cost of daily maintenance of these plants is charged to expense as incurred. A properly maintained title plant has an indefinite life and does not diminish in value with the passage of time. Therefore, in accordance with generally accepted accounting principles, no provision is made for amortization of these plants. Since each document must be reviewed and indexed into the title plant, such maintenance activities constitute a significant item of expense. The Company is able to offset a portion of title plant maintenance costs through joint ownership and access agreements with other title insurers and title agents.

Reserves for Claims and Losses. The Company provides for title insurance losses based upon its historical experience and other factors by a charge to expense when the related premium revenue is recognized. The resulting reserve for known claims and incurred but not reported claims reflects management s best estimate of the total costs required to settle all claims reported to the Company and claims incurred but not reported,

and is

considered by the Company to be adequate for such purpose. Each period the Company assesses the reasonableness of the estimated reserves; if the estimate requires adjustment, such an adjustment is recorded.

In settling claims, the Company occasionally purchases and ultimately sells the interest of the insured in the real property or the interest of the claimant adverse to the insured. These assets, which totaled $38.5 million at December 31, 2008, are carried at the lower of cost or fair value, less costs to sell, and are included in Other assets in the Company s consolidated balance sheets.

Reinsurance and Coinsurance. The Company assumes and distributes large title insurance risks through mechanisms of reinsurance and coinsurance. In reinsurance arrangements, in exchange for a premium, the reinsurer accepts that part of the risk which the primary insurer cedes to the reinsurer over and above the portion retained by the primary insurer. The primary insurer, however, remains liable for the total risk in the event that the reinsurer does not meet its obligation. As a general policy the Company does not retain more than $100 million of primary risk on any single policy. In recent years, as the Company s commercial business has grown, the number of instances in which the Company has retained risk above the threshold has increased, though in the current economic climate, this trend is expected to mitigate. Under coinsurance arrangements each coinsurer is typically liable with the other coinsurer(s) for the amount of risk to which it agrees. The Company s reinsurance activities account for less than 1.0% of its total title insurance operating revenues.

Competition. The title insurance business is highly competitive. The number of competing companies and the size of such companies vary in the different areas in which the Company conducts business. Generally, in areas of major real estate activity, such as metropolitan and suburban localities, the Company competes with many other title insurers. Over thirty title insurance underwriters, for example, are members of the American Land Title Association, the title insurance industry s national trade association. The Company s major nationwide competitors in its principal markets include Fidelity National Financial, Inc., Stewart Title Guaranty Company and Old Republic International Corporation. During 2008, LandAmerica Financial Group, Inc., believed to be the third largest provider of title insurance in the United States, filed for bankruptcy protection and sold certain of its title insurance underwriters and other assets to Fidelity, which at the time the Company believed to be the second largest provider of title insurance. In addition to these competitors, small nationwide, regional and local competitors as well as numerous agency operations throughout the country provide aggressive competition on the local level.

The Company believes that competition for title insurance business is based primarily on the quality and timeliness of service, because parties to real estate transactions are usually concerned with time schedules and costs associated with delays in closing transactions. In those states where prices are not established by regulatory authorities, the price of title insurance policies is also an important competitive factor. The Company continuously evaluates its pricing, and based on competitive, market and regulatory conditions and claims history, among other factors, intends to continue to adjust its prices as and where appropriate. In certain transactions, such as those involving commercial properties, financial strength is also important.

Trust and Investment Advisory Services. Since 1960, the Company has conducted a general trust business in California, acting as trustee when so appointed pursuant to court order or private agreement. In 1985, the Company formed a banking subsidiary into which its subsidiary trust operation was merged. During August 1999, this subsidiary converted from a state-chartered bank to a federal savings bank. This subsidiary, First American Trust, FSB, offers investment advisory services and manages equity and fixed-income securities. As of December 31, 2008, the trust company managed $2.1 billion of assets, administered fiduciary and custodial assets having a market value in excess of $3.4 billion, had assets of $1.2 billion, deposits of $1.1 billion and stockholder s equity of $41.8 million.

Lending and Deposit Products. During 1988, the Company acquired an industrial bank that accepts thrift deposits and uses deposited funds to originate and purchase loans secured by commercial properties primarily in Southern California. As of December 31, 2008, this company, First Security Thrift Company, had approximately $253.7 million of deposits and $153.9 million of loans outstanding.

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Loans made or acquired during the current year by the thrift totaled $45.1 million, with an average new loan balance of $939,504. The average loan balance outstanding at December 31, 2008, was $643,845. Loans are made only on a secured basis, at loan-to-value percentages generally less than 75%. The thrift specializes in making commercial real estate loans. The majority of the thrift s loans are made on a fixed-to-floating rate basis. The average yield on the thrift s loan portfolio as of December 31, 2008, was 7.08%. A number of factors are included in the determination of average yield, principal among which are loan fees and closing points amortized to income, prepayment penalties recorded as income, and amortization of discounts on purchased loans. The thrift s primary competitors in the Southern California commercial real estate lending market are local community banks, other thrift and loan companies and, to a lesser extent, commercial banks. The thrift s average loan to value was approximately 47% at December 31, 2008.

The performance of the thrift s loan portfolio is evaluated on an ongoing basis by management of the thrift. The thrift places a loan on non-accrual status when two payments become past due. When a loan is placed on non-accrual status, the thrift s general policy is to reverse from income previously accrued but unpaid interest. Income on such loans is subsequently recognized only to the extent that cash is received and future collection of principal is probable. Interest income on non-accrual loans that would have been recognized during the year ended December 31, 2008, if all of such loans had been current in accordance with their original terms, totaled $0.

The following table sets forth the amount of the thrift s non-performing loans as of the dates indicated.

	Year Ended December 31				
	2008	2007	2006	2005	2004
	(in thousands)				
Nonperforming Assets:					
Loans accounted for on a nonaccrual basis	$	$	$	$	$
Total	$	$	$	$	$

Based on a variety of factors concerning the creditworthiness of its borrowers, the thrift determined that it had no non-performing assets as of December 31, 2008.

The thrift s allowance for loan losses is established through charges to earnings in the form of provision for loan losses. Loan losses are charged to, and recoveries are credited to, the allowance for loan losses. The provision for loan losses is determined after considering various factors, such as loan loss experience, maturity of the portfolio, size of the portfolio, borrower credit history, the existing allowance for loan losses, current charges and recoveries to the allowance for loan losses, the overall quality of the loan portfolio, and current economic conditions, as determined by management of the thrift, regulatory agencies and independent credit review specialists. While many of these factors are essentially a matter of judgment and may not be reduced to a mathematical formula, the Company believes that, in light of the collateral securing its loan portfolio, the thrift s current allowance for loan losses is an adequate allowance against foreseeable losses.

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The following table provides certain information with respect to the thrift s allowance for loan losses as well as charge-off and recovery activity.

	Year Ended December 31				
	2008	2007	2006	2005	2004
	(in thousands, except percentages)				
Allowance for Loan Losses:					
Balance at beginning of year	$ 1,488	$ 1,440	$ 1,410	$ 1,350	$ 1,290
Charge-offs:					
Real estate mortgage					
Assigned lease payments					
Recoveries:					
Real estate mortgage					
Assigned lease payments					
Net (charge-offs) recoveries					
Provision for losses	112	48	30	60	60
Balance at end of year	$ 1,600	$ 1,488	$ 1,440	$ 1,410	$ 1,350
Ratio of net charge-offs during the year to average loans outstanding during the year	0%	0%	0%	0%	0%

The adequacy of the thrift s allowance for loan losses is based on formula allocations and specific allocations. Formula allocations are made on a percentage basis, which is dependent on the underlying collateral, the type of loan and general economic conditions. Specific allocations are made as problem or potential problem loans are identified and are based upon an evaluation by the thrift s management of the status of such loans. Specific allocations may be revised from time to time as the status of problem or potential problem loans changes.

The following table shows the allocation of the thrift s allowance for loan losses and the percent of loans in each category to total loans at the dates indicated.

	Year Ended December 31									
	2008		2007		2006		2005		2004	
	Allowance	% of Loans	Allowance	% of Loans	Allowance	% of Loans	Allowance	% of Loans	Allowance	% of Loans
	(in thousands, except percentages)									
Loan Categories:										
Real estate-mortgage	$ 1,600	100	$ 1,488	100	$ 1,440	100	$ 1,410	100	$ 1,349	100
Other									1	
	$ 1,600	100	$ 1,488	100	$ 1,440	100	$ 1,410	100	$ 1,350	100

Specialty Insurance Segment

Home Warranties. The Company s home warranty business provides residential service contracts that cover many of the major systems and appliances in residential homes against failures that occur as the result of normal usage during the coverage period. Most of these policies are issued on resale residences, although policies are also available in some instances for new homes. Coverage is typically for one year and is renewable annually at the option of the contract holder and upon approval of the Company. Coverage and pricing typically vary by

geographic region. Fees for the warranties may be paid at the closing of the home purchase or directly by the consumer and are recognized monthly over a 12-month period. Renewal premiums may be paid by a number of different options. In addition, the contract holder is responsible for a service fee for each trade call. First year warranties primarily are marketed through real estate brokers and agents, although the Company also markets directly to consumers. The Company also markets renewals primarily directly to consumers. This business currently operates in 34 states and the District of Columbia.

Property and Casualty Insurance. The Company offers property and casualty insurance through its subsidiaries First American Property and Casualty Insurance Company and First American Specialty Insurance Company. First American Property and Casualty Insurance Company primarily conducts its business utilizing the Company s direct distribution channels, including cross-selling through existing closing-service activities. First American Specialty Insurance Company conducts its business utilizing a network of brokers.

The Information Solutions Group

Information and Outsourcing Solutions Segment

The information and outsourcing solutions segment provides a wide-range of products and services, including tax monitoring, flood zone certification and monitoring, building and maintaining geospatial proprietary software and databases, default management services, loan administration and production services, business process outsourcing and asset valuation and management services. The segment s primary source of revenue is large, national mortgage lenders; additional customers include, but are not limited to, regional mortgage lenders and brokers, credit unions, commercial banks, government agencies and property and casualty insurance companies.

Tax Monitoring. The Company s tax monitoring service, established in 1987, advises mortgage originators and servicers of the status of property tax payments due on real estate securing their loans. In October 2003, the Company grew this business with the acquisition of Transamerica Finance Corporation s tax monitoring business. The Company believes that it is currently the largest provider of tax monitoring services in the United States.

Under a typical contract the Company, on behalf of mortgage originators and servicers, monitors the real estate taxes owing on properties securing such originators and servicers mortgage loans for the life of such loans. In general, providers of tax monitoring services, such as the Company s tax service, indemnify mortgage lenders against losses resulting from a failure to monitor delinquent taxes. Where a mortgage lender requires that tax payments be impounded on behalf of borrowers, the Company also may be required to monitor and oversee the transfer of these monies to the taxing authorities and provide confirmation to lenders that such taxes have been paid. The Company also may indemnify mortgage lenders against losses for any failure to make such transfers.

The Company generally receives a fee for the loan at the time a life of the loan contract is entered into or the loan is funded and recognizes revenues from tax service contracts over the estimated duration of the contracts. However, income taxes are paid on the entire fee in the first two years of the contract. Historically, the Company has maintained minimal reserves for losses relating to its tax monitoring service because its losses have been relatively minor. In addition, when performing tax outsourcing the Company performs the servicers tax payment processing function for the life of the loan for an additional fee.

Flood Zone Certification. In January 1995, the Company entered the flood zone certification business with the acquisition of Flood Data Services, Inc. In October 2003, the Company substantially expanded this business with the acquisition of Transamerica Flood Hazard Certification, Inc., one of the Company s primary competitors in this business. This business furnishes to mortgage originators and servicers a report as to whether a subject property lies within a governmentally delineated flood hazard area and monitors the property for flood hazard status changes for as long as the loan is active. Federal legislation passed in 1994 requires that most mortgage

lenders obtain a determination of the current flood zone status at the time each loan is originated and obtain updates during the life of the loan.

Outsourcing and Technology Solutions. The Company s outsourcing and technology solutions business sells software and provides services which assist mortgage servicing companies and financial institutions mitigate losses on mortgages that are in default as well as manage foreclosures, maintain and sell real estate owned (REO) properties and process foreclosure claims. Its comprehensive suite of solutions supports the default lifecycle from borrower solicitation through settlement. Its loss mitigation services cover the lifecycle of the loss mitigation process and include portfolio analysis, data driven workout options, campaign management and back office fulfillment, including signature and recording services. Additionally, the Company provides flexible staffing models that give its clients the ability to respond to growing delinquency volumes while substantially eliminating capacity fluctuations.

Appraisal Services. This segment also provides appraisal services to mortgage lenders, real estate agents, investors and other businesses requiring valuations of real property. These services generally consist of traditional appraisals, which require physical inspection and human analysis, and broker price opinion services, which value real property based on the opinions of real estate brokers and agents.

Data and Analytic Solutions Segment

The Company s data and analytic solutions segment provides licenses and analyzes data relating to mortgage securities and loans and real property, offers risk management and collateral assessment analytics, provides database access tools to various businesses, in particular to businesses operating in the real estate industry, and provides automated valuation models which use data and sophisticated mathematical models and analytic tools to arrive at a property valuation. The Company s data and analytic solutions segment s primary customers are commercial banks, mortgage lenders and brokers, investment banks, fixed income investors, real estate agents, property and casualty insurance companies and title insurance companies. The data offered by this segment includes loan information, property characteristic information and images of publicly recorded documents relating to real property. This segment also manages databases of title and tax records, known as title plants, which are used primarily by title insurance companies in the issuance of title insurance policies.

The data and analytic solutions segment was created in the Company s First American Real Estate Solutions LLC (FARES) joint venture with an affiliate of Experian Group Limited in January 1998. Since that time this segment has grown through a number of significant acquisitions. In June 1998, the Company entered the imaged document business with the acquisition of Data Tree Corporation. In July 2000, the Company combined its title plant business with a competing business owned by a competitor, LandAmerica, resulting in FARES owning 80% of the combined entity, DataTrace Information Services LLC. In August 2000, the Company combined its property data business with Transamerica Corporation s competing business. At the time the Company owned 80% of the resulting entity. During 2004, the Company purchased the remaining 20%. In April 2005, the Company expanded its offering of analytic products with the acquisition of LoanPerformance. This company provides mortgage information and mortgage performance and risk analytics largely to mortgage investors, originators and servicers. In February 2007, the Company combined its property data and related analytics businesses with CoreLogic Systems, Inc., a provider of mortgage risk assessment and fraud prevention solutions. The former stockholders of CoreLogic own approximately 18% of the combined entity.

Risk Mitigation and Business Solutions Segment

The Company s risk mitigation and business solutions segment is comprised entirely of First Advantage Corporation, a public company whose shares of Class A common stock trade on the NASDAQ Global Market under the ticker symbol FADV. First Advantage was formed in the 2003 merger of the Company s screening information segment with US SEARCH.com, Inc. Since that time First Advantage has grown substantially through acquisitions. In particular, in September 2005, the Company contributed its credit information group to

First Advantage in exchange for additional Class B common stock of First Advantage. In October 2007, First Advantage completed the sale of its US SEARCH business. As of December 31, 2008, the Company, together with its FARES joint venture with Experian, indirectly owned all of First Advantage s outstanding Class B common stock. These Class B shares constituted approximately 80.2% of the economic interest of First Advantage as of December 31, 2008, of which the Company s indirect interest equals approximately 74.4% and Experian s indirect interest equals approximately 5.8%. The Class B shares, which are entitled to ten votes per share, represent approximately 98% of the voting interest of First Advantage as of December 31, 2008.

First Advantage operates in six primary business segments: lender services, data services, dealer services, employer services, multifamily services, and investigative and litigation support services. First Advantage s lender services segment offers consumer credit reporting solutions for mortgage and home equity needs. Its data services segment provides transportation credit reporting, motor vehicle record reporting, criminal records reselling, specialty finance credit reporting, consumer credit reporting and lead generation services. Through its dealer services segment, First Advantage serves the automotive dealer marketplace by delivering consolidated consumer credit reports and automotive lead development services. First Advantage s employer services segment provides employment background, hiring management solutions, occupational health services, tax incentive services and payroll and human resource management. Its multifamily services segment provides resident screening services, property management software and renters insurance services. First Advantage s investigative and litigation support services segment supports businesses and law firms nationwide with their computer forensics, electronic discovery, data recovery, due diligence reporting and corporate and litigation investigative needs.

Acquisitions

Commencing in the 1960s, the Company initiated a growth program with a view to becoming a nationwide provider of title insurance. This program included expansion into new geographic markets through internal growth and selective acquisitions. In 1986, the Company began expanding into other real estate business information services. In 1998, the Company expanded its diversification program to include business information companies outside of the real estate transfer and closing process. Through 2007, the Company had made numerous strategic acquisitions designed to expand its direct title operations, as well as the range of services it can provide to its customers, and to diversify its revenues and earnings. Beginning in 2007, the number of acquisitions slowed considerably, as the Company focused on organic growth, product development and margin improvement. During 2008, the Company, as part of its efforts to streamline its business and improve its margins, undertook to identify non-strategic assets and, where possible, disposed of those assets. The Company expects to continue these efforts during 2009.

Regulation

The title insurance business is heavily regulated by state insurance regulatory authorities. These authorities generally possess broad powers with respect to the licensing of title insurers, the types and amounts of investments that title insurers may make, insurance rates, forms of policies and the form and content of required annual statements, as well as the power to audit and examine title insurers. Under state laws, certain levels of capital and surplus must be maintained and certain amounts of securities must be segregated or deposited with appropriate state officials. Various state statutes require title insurers to defer a portion of all premiums in a reserve for the protection of policyholders and to segregate investments in a corresponding amount. Further, most states restrict the amount of dividends and distributions a title insurer may make to its shareholders.

In 1999, the Company entered into the property and casualty insurance business through the acquisitions of Great Pacific Insurance Company and Five Star Holdings, Inc. These businesses currently operate under the names First American Specialty Insurance Company and First American Property and Casualty Insurance Company. The property and casualty business is subject to regulation by state insurance regulators in the states in which these companies transact business.

The nature and extent of such regulation may vary from jurisdiction to jurisdiction, but typically involves prior approval of the acquisition of control of an insurance company, regulation of certain transactions entered into by an insurance company with any of its affiliates, the amount and payment of dividends by an insurance company, approval of premium rates and policy forms for many lines of insurance, standards of solvency and minimum amounts of capital and surplus which must be maintained. In order to issue policies on a direct basis in a state, the property and casualty insurer must generally be licensed by such state. In certain circumstances, such as placements through licensed surplus lines brokers, it may conduct business without being admitted and without being subject to rate and policy forms approvals.

The Company s home warranty business is subject to regulation in some states by insurance authorities and other regulatory entities. The Company s trust company and thrift are both subject to regulation by the Federal Deposit Insurance Corporation. In addition, as a federal savings bank, the Company s trust company is regulated by the United States Department of the Treasury s Office of Thrift Supervision, and the Company s thrift is regulated by the California Department of Financial Institutions.

Investment Policies

The Company s investment activities primarily are overseen at the parent company level by an investment committee made up of certain senior executives, which is advised by, and has delegated certain functions to, an investment advisory committee. The investment advisory committee s members include the Company s portfolio manager and certain treasury department personnel. Certain day to day investment decisions have been delegated to the investment advisory committee, to be made within the guidelines and pursuant to the direction provided by the investment committee from time to time. Policy setting, oversight, and significant individual investment decisions occur at the investment committee level. In addition, a number of the Company s regulated subsidiaries, including its title insurance underwriters, property and casualty insurance companies and federal savings bank are required to maintain investment committees at the subsidiary level. The investment policies and objectives of these regulated subsidiaries depend to a large extent on their particular business and regulatory considerations. For example, the federal savings bank, First American Trust, FSB, is required to maintain at least 65% of its asset portfolio in loans or securities that are secured by real estate. The bank currently does not make real estate loans, and therefore fulfills this regulatory requirement predominately through investments in mortgage backed securities. In addition, state laws impose certain restrictions upon the types and amounts of investments that may be made by the Company s regulated insurance subsidiaries.

Pursuant to the Company s investment policy, fiduciary funds are to be managed in a manner designed to ensure return of the principal to the underlying beneficiaries and, where appropriate, return to the Company. The policy further provides that operating and Company investment funds are to be managed to prudently balance the earnings, liquidity, regulatory and risk objectives of the Company, and that investments should not expose the Company to excessive levels of credit risk, interest (including call, prepayment and extension) risk or liquidity risk.

The Company s debt and equity investment securities portfolio consists of approximately 95% of fixed income securities. As of December 31, 2008, over 80% of the Company s fixed income investments are held in securities that are United States government-backed or rated AAA by Standard & Poor s Ratings Group, and approximately 95% of the fixed income portfolio is rated or classified as investment grade by one or more of the major ratings agencies or the National Association of Insurance Commissioners.

In addition to its debt and equity investment securities portfolio, the Company maintains certain money-market and other short-term investments. The Company also holds some common and preferred stock and has made strategic investments in companies engaged in the title insurance, settlement services and data and analytics industries.

Employees

As of December 31, 2008, the Company employed 31,411 people on either a part-time or full-time basis. Of these employees, approximately 30% are employed outside of the United States and approximately 5% are employed at unconsolidated subsidiaries.

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Available Information

The Company maintains a website, www.firstam.com, which includes financial information and other information for investors, including open and closed title insurance orders (which typically are posted approximately 20 days after the end of each calendar month). The Company s Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available through the Investors page of the website as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the Securities and Exchange Commission. The Company s website and the information contained therein or connected thereto are not intended to be incorporated into this Annual Report on Form 10-K, or any other filing with the Securities and Exchange Commission unless the Company expressly incorporates such materials.

Item 1A. Risk Factors

You should carefully consider each of the following risk factors and the other information contained in this Annual Report on Form 10-K. 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

Demand for a substantial portion of the Company s products and services generally decreases as the number of real estate transactions in which the Company s products and services are purchased decreases. The Company has found that 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;
- when the availability of credit, including mortgage funding, is limited; and
- when real estate values are declining.

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

Recent 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 and other companies in the industries in which it operates. In addition, the Company holds investments in entities, such as title agents, settlement service providers, and data and analytics providers, and instruments, such as mortgage backed securities, 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 it holds in trust for third parties.

This bank invests those funds and any realized losses incurred are reflected in the consolidated results of the Company. The likelihood of such losses, which generally would not occur if the Company deposited these funds in an unaffiliated entity, increases when economic conditions are unfavorable. The ultimate depth and duration of the economic downturn are unknown. Depending upon the ultimate severity and duration of these conditions, the resulting effects on the Company could be materially adverse, including a significant reduction in the Company s 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 maintain its current dividend, deterioration in the value of the Company s investments and increased credit risk from customers and others with obligations to the Company.

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3. A downgrade by ratings agencies, reductions in statutory 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 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 rates the Company s title insurance operations. 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 surplus, or the amount by which statutory assets exceed statutory liabilities, is also a measure of financial strength. Accordingly, if the ratings or statutory surplus of the Company s 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.

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 the Company maintains deposits fail, there is no guarantee that the Company would recover the funds it has 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. Such events could be disruptive to the Company s business and could adversely affect the Company s liquidity, results of operations and financial condition.

5. Changes in government regulation could prohibit or limit the Company s operations or make it more burdensome to conduct such operations

The Company s title insurance, property and casualty insurance, home warranty, thrift, trust and investment businesses are regulated by various federal, state, local and foreign governmental agencies. Many of the Company s other businesses operate within statutory guidelines. Changes in the applicable regulatory environment, statutory guidelines or in 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 the Company s existing or future operations or make it more burdensome to conduct such operations. These changes may compel the Company to reduce its prices, may restrict the Company s ability to implement price increases, may restrict the Company s ability to acquire assets or businesses, may limit the manner in which the Company conducts its business or otherwise may have a negative impact on the Company s ability to generate revenues, earnings and cash flows.

6. Scrutiny of the Company 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 has become subject to heightened 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. 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 inquired into certain practices in the real estate settlement services industry to determine whether the Company or its competitors have violated applicable law, which include, among others, the insurance codes of the various jurisdictions in which the Company operates and the Real Estate Settlement

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Procedures Act and similar state and federal laws. Departments of insurance in the various states, either separately or in conjunction with federal regulators, also periodically conduct inquiries, generally referred to at the state level as market conduct exams , into the practices of title insurance companies in their respective jurisdictions. Further, from time to time plaintiffs lawyers 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 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 and, consequently, the Company may find it financially burdensome to acquire necessary data.

8. Systems interruptions and intrusions may impair the delivery of the Company s products and services

System interruptions and intrusions may impair the delivery of the Company s products and services, resulting in a loss of customers and a corresponding loss in revenue. The Company depends heavily upon computer systems located in its data centers, including its centers in Santa Ana, California and Westlake, Texas. Certain events beyond the Company s control, including natural disasters, telecommunications failures and intrusions into the Company s systems by third parties could temporarily or permanently interrupt the delivery of products and services. These interruptions also may interfere with suppliers ability to provide necessary data and employees ability to attend work and perform their responsibilities.

9. The Company may not be able to realize the benefits of its offshore strategy

Over the last few years the Company has reduced its costs by utilizing lower cost labor in foreign countries such as India and the Philippines. These countries are subject to relatively higher degrees of political and social instability and may lack the infrastructure to withstand natural disasters. Such disruptions can decrease efficiency and increase the Company s costs in these countries. Weakness of the U.S. dollar in relation to the currencies used in these foreign countries may also reduce the savings achievable through this strategy. Furthermore, the practice of utilizing labor based in foreign countries has come under increased scrutiny in the United States and, as a result, some of the Company s customers may require it to use labor based in the United States. The Company may not be able to pass on the increased costs of higher priced United States-based labor to its customers.

10. The Company may not be able to consummate the spin-off transaction, consummate such transaction in its originally proposed form, or realize the anticipated benefits thereof

On January 15, 2008, the Company announced its intention to spin-off its financial services businesses, consisting primarily of its title insurance and specialty insurance reporting segments, into a separate public company. On July 31, 2008, the Company announced that while it continues to proceed with preparations toward

separation it would delay the consummation of the spin-off transaction until market conditions improve. The proposed transaction is highly complex. Because, among other factors, a number of the Company s businesses are regulated and intertwined and the Company is a party to a multitude of transactions, the completion of the transaction may require significant time, effort and expense. This could lead to a distraction from the day to day operations of the Company s business, which could adversely affect those operations. In addition, the transaction will require certain regulatory approvals and the final approval of the Company s board of directors, and may require other third party consents, which could be withheld, or the receipt of which could require the Company to make undesirable concessions or accommodations. The landscape of the real estate and mortgage credit markets also has changed substantially since early 2008, including the dissolution or expected dissolution of certain financial institutions, the bankruptcy of a large competitor of the Company and further consolidation among the Company s current and potential customers. Market conditions also have put pressure on the revenues, earnings and cash flows of participants in the industries in which the Company operates, including the Company. For these reasons, as well as other potential factors such as the inability to transfer assets into the entity being spun-off or unfavorable reactions from customers, ratings agencies, investors or other interested persons, the Company may not be able to consummate the spin-off transaction or may not be able to consummate the transaction in the form originally proposed. Should the transaction be consummated, factors in addition to those described above could prevent one or both of the resulting companies from being able to realize the anticipated benefits of the separation. These factors include increased borrowing costs, competition between the resulting companies, unfavorable reactions from employees, any inability of the financial services company to pay the anticipated level of dividends, the triggering of rights and obligations by the transaction or any litigation arising out of or related to the separation.

11. Product migration may result in decreased revenue

Consumers of many of the Company s real estate settlement services increasingly require these services to be delivered faster, cheaper and more efficiently. Many of the Company s traditional products are labor and time intensive. As these consumer pressures increase, the Company may be forced to replace its traditional products with automated products that can be delivered electronically and with limited human processing. Because many of the Company s traditional products have higher prices than its automated products, the Company s revenues may decline.

12. Increases in the size of the Company s customers enhance their negotiating position with respect to pricing and terms and may decrease their need for the services offered by the Company

Many of the Company s customers are increasing in size as a result of consolidation or the failure of their competitors. As a result, the Company may derive a higher percentage of its revenues from a smaller base of customers, which would enhance the ability of these customers to negotiate, where permitted by law, more favorable pricing and more favorable terms for the Company s products and services. Moreover, these larger customers may prove more capable of performing in-house some or all of the services we provide and, consequently, their demand for the Company s products and services may decrease. These circumstances could adversely affect the Company s revenues and profitability.

13. Actual claims experience could materially vary from the expected claims experience that is reflected in the Company s reserve for incurred but not reported (IBNR) title claims

Title insurance policies are long-duration contracts with the majority of the claims reported to the Company within the first few years following the issuance of the policy. Generally, 70 to 80 percent of claim amounts become known in the first five years of the policy life, and the majority of IBNR reserves relate to the five most recent policy years. A material change in expected ultimate losses and corresponding loss rates for policy years older than five years, while possible, is not considered reasonably likely by the Company. However, 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, the Company believes that a

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50 basis point change to the loss rates for the most 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 five policy years increased or decreased by 50 basis points, the resulting impact on the IBNR reserve would be an increase or decrease, as the case may be, of $128.8 million. The estimates made by management in determining the appropriate level of IBNR reserves could ultimately prove to be inaccurate and actual claims experience may vary from the expected claims experience.

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

First American 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 the Company s 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 current parent company obligations and/or declare and pay dividends to its shareholders. 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. Under such regulations, the maximum amount of dividends, loans and advances available from the Company s insurance subsidiaries in 2009 is $153.2 million.

15. Certain provisions of the Company s charter may make a takeover difficult even if such takeover could be beneficial to some of the Company s shareholders

The Company s restated articles of incorporation authorize the issuance of blank check preferred stock with such designations, rights and preferences as may be determined from time to time by the Company s Board of Directors. Accordingly, the Company s board is empowered, without further shareholder action, to issue shares or series of preferred stock with dividend, liquidation, conversion, voting or other rights that could adversely affect the voting power or other rights, including the ability to receive dividends, of the Company s common shareholders. The issuance of such preferred stock could be utilized, under certain circumstances, as a method of discouraging, delaying or preventing a change in control. Although the Company has no present intention of issuing any additional shares or series of preferred stock, the Company cannot guarantee that it will not make such an issuance in the future.

16. The integration of Company acquisitions may be difficult and may result in a failure to realize some of the anticipated potential benefits of acquisitions

When companies are acquired, the Company may not be able to integrate or manage these businesses so as to produce returns that justify the investment. Any difficulty in successfully integrating or managing the operations of the acquired businesses could have a material adverse effect on the Company s business, financial condition, results of operations or liquidity, and could lead to a failure to realize any anticipated synergies. 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.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The Company maintains its executive offices at MacArthur Place in Santa Ana, California. In 2005, the Company expanded its three-building office campus through the addition of two four-story office buildings

totaling approximately 226,000 square feet, a two-story, free standing, 52,000 square foot technology center and a two-story parking structure, bringing the total square footage to approximately 490,000 square feet. The original three office buildings, totaling approximately 210,000 square feet, and the fixtures thereto and underlying land, are subject to a deed of trust and security agreement securing payment of a promissory note evidencing a loan made in October 2003, to the Company s subsidiary, First American Title Insurance Company, in the original sum of $55.0 million. This loan is payable in monthly installments of principal and interest, is fully amortizing and matures November 1, 2023. The outstanding principal balance of this loan was $45.9 million as of December 31, 2008.

As of December 31, 2006, the Company s information and outsourcing solutions segment relocated most of its national operations from a facility in Dallas, Texas to a location in Westlake, Texas. The Company entered into a lease expiring in 2017 on the Westlake, Texas facility, which comprises approximately 662,000 square feet. The Company s title insurance segment occupies a portion of this facility.

In 1999, the Company completed the construction of two office buildings in Poway, California. These two buildings, which are owned by the Company s title insurance subsidiary and are leased to First Advantage for use by its lender services segment and certain businesses in its dealer services segment, total approximately 153,000 square feet and are located on a 17 acre parcel of land.

The Company s subsidiary, First Indian Corporation, which is part of the data and analytic solutions segment, has leased approximately 127,000 square feet of a multi-tenant facility in the Bagmane Technology Park in Bangalore, India. The lease expires at the end of 2011. In addition, First Indian Corporation has leased an aggregate of approximately 92,000 square feet of office space in four buildings of the International Technology Park, also located in Bangalore. Three of the leases expire in 2012 and the fourth expires in 2010. The Company has the option to terminate all of the leases in the International Technology Park in 2011.

The office facilities occupied by the Company or its subsidiaries are, in all material respects, in good condition and adequate for their intended use.

Item 3. Legal Proceedings

The Company and its subsidiaries have been named in various lawsuits, most of which relate to their title insurance operations. In cases 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 facts known to the Company. In accordance with Statement of Financial Accounting Standards No. 5, Accounting for Contingencies (SFAS 5), the Company maintained a reserve for these lawsuits totaling $65.7 million at December 31, 2008. Actual losses may materially differ from the amounts recorded. The Company does not believe that the ultimate resolution of these cases, either individually or in the aggregate, will have a material adverse effect on the Company s financial condition, results of operations or cash flows.

The Company s title insurance, property and casualty insurance, home warranty, 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 audit or investigation by such governmental agencies. Currently, governmental agencies are auditing or investigating certain of the Company s operations. These audits or investigations include inquiries into, among other matters, pricing and rate setting practices in the title insurance industry, competition in the title insurance industry and title insurance customer acquisition and retention practices. 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 facts known to the Company. In accordance with SFAS 5, the Company maintained a reserve for these matters totaling $2.4 million at December 31, 2008. While the ultimate

disposition of each such audit or investigation is not yet determinable, the Company does

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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 audits or investigations could 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 also is involved in numerous ongoing routine legal and regulatory proceedings related to its operations. While the ultimate disposition of each proceeding is not determinable, the Company does not believe that any of such proceedings, individually or in the aggregate, will have a material adverse effect on its financial condition, results of operations or cash flows.

Item 4. Submission of Matters to a Vote of Security Holders

The annual meeting of shareholders of the Company was held on December 10, 2008. The names of the persons who were nominated to serve as directors of the Company for the ensuing year are listed below, together with a tabulation of the results of the voting at the annual meeting with respect to each nominee. All nominees were elected.

Name of Nominee	Votes For	Votes Withheld
George L. Argyros	78,629,471	6,946,260
Bruce S. Bennett	81,235,503	4,340,228
J. David Chatham	78,779,022	6,796,709
Glenn C. Christenson	81,289,711	4,286,020
William G. Davis	59,836,722	25,739,009
James L. Doti	78,453,483	7,122,248
Lewis W. Douglas, Jr.	76,919,800	8,655,931
Christopher V. Greetham	80,984,108	4,591,623
Parker S. Kennedy	78,792,066	6,783,665
Thomas C. O Brien	80,946,404	4,629,327
Frank O Bryan	78,778,217	6,797,514
Roslyn B. Payne	78,763,375	6,812,356
D. Van Skilling	79,088,296	6,487,435
Patrick F. Stone	81,176,384	4,399,347
Herbert B. Tasker	78,748,041	6,827,690
Virginia M. Ueberroth	78,837,473	6,738,258
Mary Lee Widener	78,798,482	6,777,249

At the meeting, the shareholders of the Company also voted to ratify the Audit Committee s selection of PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm for 2008, with 83,833,890 votes for, 1,314,402 votes against, 427,439 votes abstaining and no broker non-votes.

At the meeting, a proposal to approve amendments to the Company s Articles of Incorporation and Bylaws increasing the range in the number of directors that may serve on the board from a range of 9 to 17 to a range of 10 to 18 was also approved, with 81,203,074 votes for, 3,993,633 votes against, 379,024 votes abstaining and no broker non-votes.

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PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Common Stock Market Prices and Dividends

The Company s common stock trades on the New York Stock Exchange (ticker symbol FAF). The approximate number of record holders of common stock on February 23, 2009, was 2,956.

High and low stock prices and dividends declared for the last two years were as follows:

	2008			2007		
Quarter Ended	High-low range		Cash dividends	High-low range		Cash dividends
March 31	$ 43.58	$28.10	$ 0.22	$ 53.26	$40.78	$ 0.22
June 30	$ 37.65	$26.40	$ 0.22	$ 55.11	$48.98	$ 0.22
September 30	$ 33.70	$21.08	$ 0.22	$ 52.21	$36.02	$ 0.22
December 31	$ 30.34	$15.11	$ 0.22	$ 37.46	$30.07	$ 0.22

On January 15, 2008, the Company announced its intention to separate its financial services companies from its information solutions companies. Following the consummation of the spin-off transaction, the financial services company is expected to pay a dividend. However, the amount of the dividend, if any, depends on the earnings, financial condition and capital requirements of the financial services company at that time. The information solutions company is not expected to pay a dividend following the transaction.

While, prior to the spin-off transaction, the Company expects to continue its policy of paying regular quarterly cash dividends, future dividends will be dependent on future earnings, financial condition and capital requirements. The ability to pay dividends also is potentially affected by the restrictions described in Note 2 to the consolidated financial statements included in Item 8. Financial Statements and Supplementary Data of Part II of this report.

Securities Authorized for Issuance under Equity Compensation Plans

The following table sets forth details regarding equity securities of the Company that were authorized for issuance under equity compensation plans of the Company as of December 31, 2008.

Plan Category	Equity Compensation Plan Information		
	Number of securities to be issued upon exercise of	Weighted-average exercise price of	Number of securities remaining available for future issuance

	outstanding options, warrants and rights (a)		outstanding options, warrants and rights (2) (b)	under equity compensation plans (excluding securities reflected in column (a)) (c)
	(in thousands, except weighted-average exercise price)			
Equity compensation plans approved by security holders	3,691(1)	$	29.68	4,713(3)
Equity compensation not approved by security holders	340(4)	$	38.78	
	4,031	$	30.59	4,713

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(1) Consists of unexercised outstanding stock options and unvested restricted stock units (RSUs) issued under The First American Corporation 1996 Stock Option Plan, The First American Corporation 1997 Directors Stock Plan and The First American Corporation 2006 Incentive Compensation Plan. See Note 17 to the Company s consolidated financial statements for additional information.

(2) Calculated solely with respect to outstanding unexercised stock options.

(3) Consists of the sum of the shares remaining under the plans referenced in footnote (1) above and the shares remaining under the Company s Employee Stock Purchase Plan.

(4) Consists of shares related to plans assumed by the Company in the purchase of Credit Management Solutions, Inc. and stock options and RSUs issued to Frank V. McMahon as an inducement for him to commence employment.

Unregistered Sales of Equity Securities

During the quarter ended December 31, 2008, the Company did not issue any unregistered shares of its common stock.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table describes purchases by the Company of the Company s Common shares which settled during each period set forth in the table. Prices in column (b) include commissions. Purchases described in column (c) were made pursuant to the share repurchase program initially announced by the Company on May 18, 2004, which was amended to add additional amounts to the repurchase authorization on May 19, 2005, June 26, 2006, and January 15, 2008. The amounts in column (d) reflect the effect of these amendments. Under this plan, which has no expiration date, the Company may repurchase up to $800 million of the Company s issued and outstanding Common shares. In 2008, the Company did not repurchase any shares under this plan and cumulatively the Company has repurchased $439.6 million (including commissions) of its shares and had the authority to repurchase an additional $360.4 million (including commissions) under the plan.

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
October 1 to October 31, 2008				$ 360,369,939
November 1 to November 30, 2008				$ 360,369,939
December 1 to December 31, 2008				$ 360,369,939
Total				$ 360,369,939

Stock Performance Graph

The following performance graph and related information shall not be deemed soliciting material or filed with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, each as amended, except to the extent that it is specifically incorporated by reference into such filing.

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The following graph compares the yearly percentage change in the cumulative total shareholder return on the Company s common shares with the corresponding changes in the cumulative total returns of the Standard & Poor s 500 Index, the Standard & Poor s 500 Financials Index and a peer group index. The comparison assumes an investment of $100 on December 31, 2003 and reinvestment of dividends. This historical performance is not indicative of future performance.

Comparison of Five-Year Cumulative Total Return

	The First American Corp (FAF) (1)	Custom Peer Group (1)(2)	S&P 500 Financial Sector Index (1)	S&P 500 Index (1)
12/31/2003	$ 100	$ 100	$ 100	$ 100
12/31/2004	$ 120	$ 112	$ 111	$ 111
12/31/2005	$ 158	$ 122	$ 118	$ 116
12/31/2006	$ 144	$ 129	$ 141	$ 135
12/31/2007	$ 124	$ 98	$ 115	$ 142
12/31/2008	$ 108	$ 77	$ 51	$ 90

(1) As calculated by Bloomberg Financial Services, to include reinvestment of dividends.

(2) The peer group consists of the following companies: Assurant, Inc.; Affiliated Computer Services, Inc.; Fidelity National Financial, Inc. (as it existed on December 31, 2003 and its successor entities); Fiserv, Inc.; Old Republic International Corp.; LandAmerica Financial Group, Inc.; Equifax Inc.; Stewart Information Services Corp.; MGIC Investment Corporation; The Dun & Bradstreet Corporation; The PMI Group, Inc.; ChoicePoint Inc.; Fair Isaac Corporation; Fidelity National Information Services, Inc.; and Radian Group Inc., each of which operates in a business similar to a business operated by the Company. The Compensation Committee of the Company utilizes the compensation practices of these companies as benchmarks in setting the compensation of its executive officers.

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Item 6. Selected Financial Data

The selected consolidated financial data for the Company for the five-year period ended December 31, 2008, has been derived from the audited Consolidated Financial Statements. The selected consolidated financial data should be read in conjunction with the Consolidated Financial Statements and Notes thereto, Item 1 Business Acquisitions, and Item 7 Management s Discussion and Analysis Results of Operations.

The First American Corporation and Subsidiary Companies

	Year Ended December 31				
	2008	**2007**	**2006**	**2005**	**2004**
	(in thousands, except percentages, per share amounts and employee data)				
Revenues	$ 6,213,758	$ 8,222,383	$ 8,533,597	$ 8,104,751	$ 6,722,326
Net (loss) income	$ (26,320)	$ (3,119)	$ 287,676	$ 480,380	$ 345,847
Total assets	$ 8,730,055	$ 8,647,921	$ 8,224,285	$ 7,598,641	$ 6,216,536
Notes and contracts payable	$ 868,274	$ 906,046	$ 847,991	$ 848,569	$ 732,770
Deferrable interest subordinated notes	$ 100,000	$ 100,000	$ 100,000	$ 100,000	$ 100,000
Stockholders equity	$ 2,691,876	$ 2,984,825	$ 3,202,053	$ 3,005,733	$ 2,469,138
Return on average stockholders equity	(0.9)%	(0.1)%	9.3%	17.5%	15.9%
Dividends on common shares	$ 81,542	$ 82,833	$ 69,213	$ 68,636	$ 52,403
Per share of common stock *(Note A)* Net (loss) income:					
Basic	$ (0.28)	$ (0.03)	$ 2.99	$ 5.09	$ 4.00
Diluted	$ (0.28)	$ (0.03)	$ 2.92	$ 4.92	$ 3.80
Stockholders equity	$ 28.96	$ 32.50	$ 33.19	$ 31.36	$ 27.42
Cash dividends	$ 0.88	$ 0.88	$ 0.72	$ 0.72	$ 0.60
Number of common shares outstanding Weighted average during the year:					
Basic	92,516	94,649	96,206	94,351	86,430
Diluted	92,516	94,649	98,653	97,691	91,669
End of year	92,963	91,830	96,484	95,860	90,058
Title orders opened *(Note B)*	1,961	2,402	2,510	2,700	2,519
Title orders closed *(Note B)*	1,399	1,697	1,866	2,017	1,909
Number of employees *(Note C)*	31,411	37,354	39,670	37,883	30,994

Note A Per share information relating to net income is based on weighted-average number of shares outstanding for the years presented. Per share information relating to stockholders equity is based on shares outstanding at the end of each year.

Note B Title order volumes are those processed by the direct title operations of the Company and do not include orders processed by agents.

Note C Number of employees in 2008, 2007, 2006 and 2005 is based on actual employee headcount, including employees of unconsolidated subsidiaries. Number of employees in 2004 was based on full-time equivalents.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

This Management s Discussion and Analysis contains certain financial measures, in particular presentation of certain balances excluding the impact of acquisitions and other non-recurring items that are not presented in accordance with generally accepted accounting principles (GAAP). The Company is presenting these non-GAAP financial measures because they provide the Company s management and readers of the Annual Report on Form 10-K with additional insight into the operational performance of the Company relative to earlier periods and relative to the Company s competitors. The Company does not intend for these non-GAAP financial measures to be a substitute for any GAAP financial information. Readers of this Annual Report on Form 10-K should use these non-GAAP financial measures only in conjunction with the comparable GAAP financial measures.

Spin-off

On January 15, 2008, the Company announced its intention to separate its financial services companies from the information solutions companies via a spin-off transaction, resulting in two separate publicly traded entities. The Company continues to proceed with preparations for the anticipated separation. However, because of negative trends and continued uncertainty in the real estate and mortgage credit markets and the Company s desire to focus on responding to these conditions, among other factors, the Company s Board of Directors determined on July 30, 2008, to delay the consummation of the transaction. While there has been no change to the intention to separate the Company s financial services businesses from its information solutions businesses, the Company intends to monitor market conditions continuously and consummate the transaction when such conditions warrant it. The transaction remains subject to customary conditions, including final approval by the Board of Directors, filing and effectiveness of a Form 10 Registration Statement with the Securities and Exchange Commission, receipt of a tax ruling from the Internal Revenue Service and the approval of applicable regulatory authorities.

Effective January 1, 2008, the Company reorganized its two business groups and underlying segments to reflect how the assets and operations at that time were expected to be divided when the spin-off is consummated, which generally reflects how the business is currently managed. Market conditions, the ability to obtain necessary consents and other factors may result in the continued delay or the cancellation of the separation or in the actual form of the separation differing from the current expectations. The segment presentation below reflects this reorganization. All previously reported segment information has been restated to conform to this presentation.

Financial Services Group

Title Insurance and Services: The title insurance and services segment issues residential and commercial title insurance policies and provides related escrow services, accommodates tax-deferred exchanges and provides investment advisory services, trust services, lending and deposit products and other related products and services.

Specialty Insurance: The specialty insurance segment issues property and casualty insurance policies and sells home warranty products.

Information Solutions Group

Information and Outsourcing Solutions: The information and outsourcing solutions segment focuses on providing a wide-range of products and services including tax monitoring, flood zone certification and monitoring, default management services, loan administration and production services, business process outsourcing, asset valuation and management services, and building and maintaining geospatial proprietary software and databases.

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Data and Analytic Solutions: The data and analytic solutions segment provides licenses and analyzes data relating to mortgage securities and loans and real property, offers risk management and collateral assessment analytics and provides database access tools and automated appraisal services.

Risk Mitigation and Business Solutions: The risk mitigation and business solutions segment, which is comprised entirely of the Company s publicly traded First Advantage Corporation subsidiary, provides consumer credit reporting solutions for mortgage and home equity needs, transportation credit reporting, motor vehicle record reporting, criminal records reselling, specialty finance credit reporting, consumer credit reporting, lead generation services, consolidated consumer credit reports and automotive lead development services for the automotive dealer marketplace, employment background screening, hiring management solutions, occupational health services, tax incentive services, payroll and human resource management, resident screening services, property management software, renters insurance services, computer forensics, electronic discovery, data recovery, due diligence reporting and corporate and litigation investigative services.

Critical Accounting Policies and Estimates

The Company s management considers the accounting policies described below to be critical in preparing the Company s consolidated financial statements. These policies require management to make estimates and judgments that affect the reported amounts of certain assets, liabilities, revenues, expenses and related disclosures of contingencies. See Note 1 to the consolidated financial statements for a more detailed description of the Company s accounting policies.

Revenue recognition. Title premiums on policies issued directly by the Company are recognized on the effective date of the title policy, and for policies issued by independent agents, when notice of issuance is received from the agent. Revenues from home warranty contracts are recognized ratably over the 12-month duration of the contracts. Revenues from property and casualty insurance policies are recognized ratably over the 12-month duration of the policies. The Company s tax service division defers its tax service fee on life of loan contracts and recognizes that fee as revenue ratably over the expected service period. The amortization rates applied to recognize the revenues assume a 10-year contract life and are adjusted to reflect the estimated impact of prepayments, resulting in a weighted average life of less than 10 years. The Company reviews its tax service contract portfolio on a quarterly basis to determine if there have been changes in contract lives and/or changes in the number and/or timing of prepayments and adjusts the amortization rates accordingly to reflect current trends. Subscription-based revenues are recognized ratably over the contractual term of the subscription. For most other products, revenues are recognized at the time of delivery, as the Company has no significant ongoing obligation after delivery.

Provision for title losses. The Company provides for title insurance losses by a charge to expense when the related premium revenue is recognized. The amount charged to expense is generally determined by applying a rate (the loss provision rate) to total title insurance operating revenues. The Company s management estimates the loss provision rate at the beginning of each year and reassesses the rate quarterly to ensure that the resulting incurred but not reported (IBNR) loss reserve and known claims reserves included in the Company s consolidated balance sheets together reflect management s best estimate of the total costs required to settle all IBNR and known claims. If the ending IBNR reserve is not considered adequate, an adjustment is recorded.

The process of assessing the loss provision rate and the resulting IBNR reserve involves evaluation of the results of both an in-house actuarial review and independent actuarial study. The Company s in-house actuary performs a reserve analysis utilizing generally accepted actuarial methods that incorporate cumulative historical claims experience and information provided by in-house claims and operations personnel. Current economic and business trends are also reviewed and used in the reserve analysis. These include real estate and mortgage markets conditions, changes in residential and commercial real estate values, and changes in the levels of defaults and foreclosures that may affect claims levels and patterns of emergence, as well as any company-specific factors that may be relevant to past and future claims experience. Results from the analysis include, but are not limited to, a range of IBNR reserve estimates and a single point estimate for IBNR as of the balance sheet date.

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For recent policy years at early stages of development (generally the last three years), IBNR was determined by applying an expected loss rate to operating revenue and adjusting for policy year maturity using the estimated loss development pattern. The expected loss rate is based on historical experience and the relationship of the history to the applicable policy years. This is a generally accepted actuarial method of determining IBNR for policy years at early development ages, and when claims data reflects unusual impacts. IBNR calculated in this way is lower than a multiplicative loss development factor calculation would produce. Factor-based development effectively extrapolates results to date forward through the lifetime of the policy year s development. Management believes the expected loss rate method is appropriate for recent policy years, because of the high level of loss emergence during the past two calendar years. This loss emergence is believed to consist largely of acceleration of claims that otherwise would have been realized later and one-time losses. Both of these effects are results of temporary economic conditions that are not expected to persist throughout the development lifetime of those policy years.

For more mature policy years (generally, policy years aged more than three years), IBNR was determined using multiplicative loss development factor calculations. These years were also exposed to adverse economic conditions during 2007-2008 that may have resulted in acceleration of claims and one-time losses. The possible extrapolation of these losses to future development periods by using factors was considered. The impact of economic conditions during 2007-2008 is believed to account for a much less significant portion of losses on policy years 2004 and prior than on recent policy years. Policy years 2004 and prior were at relatively mature ages when the adverse development period began in 2007, and much of their losses had already been incurred by then. In addition, the loss development factors for policy years 2005 and prior are low enough that the potential for over-extrapolation is limited to an acceptable level.

At the beginning of 2009, the economy appears to be in recession and real estate prices are continuing their downward trend. On the positive side, governmental intervention has the potential to reverse these trends during the year, and specific features of recent legislation may reduce title claims exposure going forward.

The Company utilizes an independent third party actuary who produces a report with estimates and projections of the same financial items described above. The third party actuary s analysis uses generally accepted actuarial methods that may in whole or in part be different from those used by the in-house actuary. The third party actuary s report is a second estimate that is used to validate the reasonableness of the in-house analysis.

The Company s management uses the point estimate of the projected IBNR from the in-house actuary s analysis and other relevant information it may have concerning claims to determine what it considers to be the best estimate of the total amount required for the IBNR reserve.

Title insurance policies are long-duration contracts with the majority of the claims reported to the Company within the first few years following the issuance of the policy. Generally, 70 to 80 percent of claim amounts become known in the first five years of the policy life, and the majority of IBNR reserves relate to the five most recent policy years. A material change in expected ultimate losses and corresponding loss rates for policy years older than five years, while possible, is not considered reasonably likely by the Company. However, 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, the Company believes that a 50 basis point change to the loss rates for the most 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 five policy years increased or decreased by 50 basis points, the resulting impact on the IBNR reserve would be an increase or decrease, as the case may be, of $128.8 million. The estimates made by management in determining the appropriate level of IBNR reserves could ultimately prove to be inaccurate and actual claims experience may vary from the expected claims experience.

A summary of the Company s loss reserves, broken down into its components of known title claims, incurred but not reported and non-title claims, follows:

(in thousands except percentages)	December 31, 2008		December 31, 2007	
Known title claims	$ 234,311	17.3%	$ 188,210	13.9%
IBNR	1,035,779	76.4%	1,096,230	80.7%
Total title claims	1,270,090	93.7%	1,284,440	94.6%
Non-title claims	85,302	6.3%	73,192	5.4%
Total loss reserves	$ 1,355,392	100.0%	$ 1,357,632	100.0%

Fair Value of Investment Portfolio. The Company classifies its publicly traded debt and equity securities as available-for-sale, as defined by SFAS 115 Accounting for Certain Investments in Debt and Equity Securities , with unrealized gains or losses classified as a component of other comprehensive income.

The Company determines the fair value of its debt and equity securities in accordance with SFAS No. 157 Fair Value Measurements . SFAS 157 provides 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 reporting entity (observable inputs) and the reporting entity s own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The hierarchy level assigned to each security in the Company s available-for-sale portfolio is based on management s assessment of the transparency and reliability of the inputs used in the valuation of such instrument 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 securities. The fair value of equity securities included in the Level 1 category was based on quoted prices that are readily and regularly available in an active market.

Level 2 Valuations based on observable inputs (other than Level 1 prices), such as quoted prices for similar assets at the measurement date; quoted prices in markets that are not active; or other inputs that are observable, either directly or indirectly. The fair value of fixed maturity and short-term investments included in the Level 2 category was based on the market values obtained from an independent pricing service 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. This pricing service is a leading provider of financial market data, analytics and related services to financial institutions. The independent pricing service monitors market indicators, industry and economic events, and for broker-quoted only securities, obtains quotes from market makers or broker-dealers that it recognizes to be market participants. The Level 2 category includes corporate bonds, foreign government bonds, and municipal bonds. When the value from an independent pricing service is utilized, management obtains an understanding of the valuation models and assumptions utilized by the service and has processes in place to determine that the values provided represent current values. Typical inputs and assumptions to pricing models used to value securities include, but are not limited to, benchmark yields, reported trades, broker-dealer quotes, issue spreads, benchmark securities, bids, offers, reference data and industry and economic events. For mortgage and asset-backed securities, inputs and assumptions may also include the structure of issuance, characteristics of the issuer, collateral attributes, prepayment speeds and credit ratings. The Company s non-agency mortgage-backed and asset-backed securities consist of senior tranches of securitizations and the underlying borrowers are substantially all prime. At December 31, 2008, the Company performed a cash flow analysis of those securities using assumptions which management believes reasonable as to housing prices and default rates. The cash flow analysis was stress-tested for various increases in the frequency and severity of losses. The analysis indicates that all contractual amounts should be collected given this securities portfolio.

Level 3 Valuations based on inputs that are unobservable and significant to the overall fair value measurement, and involve management judgment. Currently the Company does not have any items classified as Level 3.

If the inputs used to measure fair value fall in different levels of the fair value hierarchy, a financial security s hierarchy level is based upon the lowest level of input that is significant to the fair value measurement. A number of the Company s investment grade corporate bonds are frequently traded in active markets and market prices for these securities existed at December 31, 2008. These securities were classified as Level 2 at December 31, 2008 because the valuation models use observable market inputs in addition to traded prices.

When, in the opinion of management, a decline in the fair value of an investment is considered to be other-than-temporary, such investment is written down to its fair value. When assessing if a decline in value is other-than-temporary, the factors considered include the length of time and extent to which fair value has been below cost, the probability that the Company will be unable to collect all amounts due under the contractual terms of the security, the seniority and duration of the securities (including estimates of prepayments and credit losses and sensitivity analysis of those estimates), company-specific news and other developments, the financial condition and prospects of the issuer (including credit ratings), macro-economic changes (including the outlook for industry sectors, which includes government policy initiatives) and the Company s ability and intent to hold the investment for a period of time sufficient to allow for anticipated recovery.

Purchase accounting and impairment testing for goodwill and other intangible assets. Pursuant to Statement of Financial Standards No. 142, Goodwill and Other Intangible Assets (SFAS 142), the Company is required to perform an annual impairment test for goodwill and other indefinite-lived intangible assets for each reporting unit. This annual test, which the Company has elected to perform every fourth quarter, utilizes a variety of valuation techniques, all of which require management to make estimates and judgments. Fair value is determined by employing an expected present value technique, which utilizes multiple cash flow scenarios that reflect a range of possible outcomes and an appropriate discount rate. The use of comparative market multiples (the market approach) compares the reporting unit to other comparable companies (if such comparables are present in the marketplace) based on valuation multiples to arrive at a fair value. Certain of these valuation techniques are also utilized by the Company in accounting for business combinations, primarily in the determination of the fair value of acquired assets and liabilities. The Company s reporting units, for purposes of applying the provisions of SFAS 142, are title insurance, home warranty, property and casualty insurance, trust and other services, data and analytic solutions, information and outsourcing solutions, lender services, data services, dealer services, employer services, multifamily services and investigative and litigation support services. At such time that an impairment in value of an intangible or long-lived asset is identified, the impairment is measured as the amount by which the carrying amount of the long-lived asset exceeds its fair value. In assessing the fair value, management utilizes the results of the valuations (including the market approach to the extent comparables are available) and considers the range of fair values determined under all methods and the extent to which the fair value exceeds the book value of the equity. The Company s policy is to perform an annual impairment test for each reporting unit in the fourth quarter or sooner if circumstances indicate a possible impairment. The Company completed the required annual impairment testing for goodwill and other intangible assets in accordance with the provisions of SFAS 142, for the years ended December 31, 2008 and 2007, in the fourth quarter of each year. In 2008, management concluded that, based on its assessment of the reporting units operations, the markets in which the reporting units operate and the long-term prospects for those reporting units that the more likely than not threshold for decline in value established by SFAS 142 had not been met and that therefore no triggering events requiring an earlier analysis had occurred.

SFAS 142 impairment testing process includes two steps. The first step (Step 1) compares the fair value of each reporting unit to its book value. The fair value of each reporting unit is determined by using discounted cash flow analysis and market approach valuations. If the fair value of the reporting unit exceeds its book value, the goodwill is not considered impaired and no additional analysis is required. However, if the book value is greater than the fair value, a second step (Step 2) must be completed to determine if the fair value of the goodwill exceeds the book value of the goodwill.

Step 2 involves calculating an implied fair value of goodwill for each reporting unit for which the first step indicated impairment. The implied fair value of goodwill is determined in a manner similar to the amount of

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goodwill calculated in a business combination, by measuring the excess of the estimated fair value of the reporting unit, as determined in the first step, over the aggregate estimated fair values of the individual assets, liabilities and identifiable intangibles as if the reporting unit was being acquired in a business combination. If the implied fair value of goodwill exceeds the carrying value of goodwill assigned to the reporting unit, there is no impairment. If the carrying value of goodwill assigned to a reporting unit exceeds the implied fair value of the goodwill, an impairment loss is recorded for the excess. An impairment loss cannot exceed the carrying value of goodwill assigned to a reporting unit, and the loss establishes a new basis in the goodwill. Subsequent reversal of goodwill impairment losses is not permitted.

The valuation of goodwill requires assumptions and estimates of many critical factors including revenue growth, cash flows, market multiples and discount rates. Forecasts of future operations are based, in part, on operating results and management s expectations as to future market conditions. These types of analyses contain uncertainties because they require management to make assumptions and to apply judgments to estimate industry economic factors and the profitability of future business strategies. However, if actual results are not consistent with the Company s estimates and assumptions, the Company may be exposed to an additional impairment loss that could be material. Due to significant volatility in the current markets, the Company s operations may be negatively impacted in the future to the extent that exposure to impairment charges may be required.

Management uses estimated future cash flows (undiscounted and excluding interest) to measure the recoverability of long-lived assets held and used whenever events or changes in circumstances indicate that the carrying value of an asset may not be fully recoverable.

Income taxes. The Company accounts for income taxes under the asset and liability method, whereby deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company evaluates the need to establish a valuation allowance for deferred tax assets based upon the amount of existing temporary differences, the period in which they are expected to be recovered and expected levels of taxable income. A valuation allowance to reduce deferred tax assets is established when it is more likely than not that some or all of the deferred tax assets will not be realized.

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement 109. FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return, including a decision whether to file or not to file in a particular jurisdiction. The transition adjustment recognized on the date of adoption is recorded as an adjustment to retained earnings as of the beginning of the adoption period. The Company adopted FIN 48 on January 1, 2007. See Note 13 to the consolidated financial statements for a discussion of the impact of implementing FIN 48.

Depreciation and amortization lives for assets. Management is required to estimate the useful lives of several asset classes, including capitalized data, internally developed software and other intangible assets. The estimation of useful lives requires a significant amount of judgment related to matters such as future changes in technology, legal issues related to allowable uses of data and other matters.

Share-based compensation. In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123R, Share-Based Payment (SFAS 123R). This standard is a revision of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation and supersedes Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees and its related implementation guidance. Effective January 1, 2006, the Company adopted SFAS 123R, which establishes standards for share-based awards for employee services. SFAS 123R has two transition

method applications to choose from and the Company selected the modified-prospective method, under which prior periods are not revised for comparative purposes. SFAS 123R focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. The standard requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). The cost is recognized over the period during which an employee is required to provide services in exchange for the award. In accordance with the modified prospective method, the Company continues to use the Black-Scholes option-pricing model for all unvested options as of December 31, 2005. The Company has selected the binomial lattice option-pricing model to estimate the fair value for any options granted after December 31, 2005. In conjunction with the adoption of SFAS 123R, the Company changed the method of attributing the value of share-based compensation expense from the accelerated multiple-option method to the straight-line single option method. Compensation expense for all share-based awards granted prior to January 1, 2006 is recognized using the accelerated multiple-option approach, while compensation expense for all share-based awards granted subsequent to January 1, 2006, is recognized using the straight-line single option method unless another expense attribution model is required by SFAS 123R. As stock-based compensation expense recognized in the results of operations is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Prior to 2006, forfeitures were recognized as they occurred. The Company elected to apply the long-form method for determining the pool of windfall tax benefits and had a pool of windfall tax benefits upon adoption of SFAS 123R.

In the first quarter of 2007, the Company changed from granting stock options as the primary means of share-based compensation to granting restricted stock units (RSUs). The fair value of any RSU grant is based on the market value of the Company s shares on the date of grant and is generally recognized as compensation expense over the vesting period. RSUs granted to certain key employees have graded vesting and have a service and performance requirement and are therefore expensed using the accelerated multiple-option method to record share-based compensation expense. All other RSU awards have graded vesting and service is the only requirement to vest in the award and are therefore generally expensed using the straight-line single option method to record share-based compensation expense. RSUs receive dividend equivalents in the form of RSUs having the same vesting requirements as the RSUs initially granted.

In addition to stock options and RSUs, the Company has an employee stock purchase plan that allows eligible employees to purchase common stock of the Company at 85% of the closing price on the last day of each month. Under the provisions of SFAS 123R, commencing the first quarter of 2006, the Company began recognizing an expense in the amount equal to the discount.

Recent Accounting Pronouncements:

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value within generally accepted accounting principles (GAAP), and expands disclosure requirements regarding fair value measurements. Although SFAS 157 does not require any new fair value measurements, its application may, in certain instances, change current practice. Where applicable, SFAS 157 simplifies and codifies fair value related guidance previously issued within GAAP. The Company has adopted FASB Staff Position 157-2 Effective Date of FASB Statement No. 157 (FSP 157-2), issued February 2008, and as a result the Company has applied the provisions of SFAS 157 that are applicable as of January 1, 2008, which had no effect on its consolidated financial statements. FSP 157-2 delays the effective date of FAS 157 for non-financial assets and non-financial liabilities until January 1, 2009. In October 2008, the FASB issued FSP No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active* (FSP 157-3). FSP 157-3 clarifies the application of SFAS 157, which the Company adopted as of January 1, 2008, in cases where a market is not active. The Company has considered FSP 157-3 in its determination of estimated fair values as of December 31, 2008, and the impact was not material.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159 The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). This statement permits companies to choose to measure many financial assets and liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. The Company adopted SFAS 159 effective January 1, 2008. The Company did not apply SFAS 159 to any assets or liabilities and, therefore, the adoption has had no effect on its consolidated financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141(R) Business Combinations (SFAS 141(R)). This Statement retains the fundamental requirements in Statement of Financial Accounting Standards No. 141 Business Combinations , that the acquisition method of accounting, previously known as the purchase method, be used for all business combinations and for an acquirer to be identified for each business combination. SFAS 141(R) establishes principles and requirements for how the acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) requires contingent consideration to be recognized at its fair value on the acquisition date and, for certain arrangements, changes in fair value to be recognized in earnings until settled. SFAS 141(R) also requires acquisition-related transaction and restructuring costs to be expensed rather than treated as part of the cost of the acquisition. The provisions for SFAS 141(R) are effective for the Company beginning January 1, 2009. SFAS 141(R) will be applied prospectively and early adoption is prohibited. The Company does not believe the adoption of SFAS 141(R) will have a material impact on the consolidated financial statements.

In February 2009, the Financial Accounting Standards Board (FASB) voted to issue FASB Staff Position FAS 141(R)-a, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies (the FSP). The FASB voted to carry forward the requirements in Statement of Financial Accounting Standards No. FAS 141, Business Combinations (SFAS 141), for acquired contingencies, which would require that such contingencies be recognized at fair value on the acquisition date if fair value can be reasonably estimated during the allocation period. Otherwise, companies would typically account for the acquired contingencies in accordance with Statement of Financial Accounting Standards No. 5, Accounting for Contingencies (SFAS 5). As a result of the requirement to use the guidance in SFAS 141, the accounting for preacquisition contingencies may be an exception to the recognition and fair value measurement principles of SFAS 141(R). Additionally, the FASB voted to change the accounting for an acquiree s pre-existing contingent consideration arrangement that was assumed by the acquirer as part of the business combination. Such arrangements will now be accounted for as contingent consideration by the acquirer. The FSP will have the same effective date as SFAS 141(R), and will therefore be effective for all business combinations for which the acquisition date is on or after January 1, 2009. Early adoption is not permitted.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160 Noncontrolling Interest in Consolidated Financial Statements an amendment of ARB No. 51 (SFAS 160). SFAS 160 states that accounting and reporting for minority interests will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS 160 also establishes reporting requirements that provide disclosures that identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS 160 is effective for the Company beginning January 1, 2009, and early adoption is prohibited. SFAS 160 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. All other requirements of SFAS 160 will be applied prospectively. The Company does not believe the adoption of SFAS 160 will have a material impact on the consolidated financial statements.

Results of Operations

Overview

A substantial portion of the revenues for the Company s title insurance and services segment result from resales and refinancings of residential real estate and, to a lesser extent, from commercial transactions and the construction and sale of new housing. Over one-half of the revenues in the Company s information and outsourcing solutions and data and analytic solutions segments and approximately 18.0% of the revenues from the Company s risk mitigation and business solutions segment also depend on real estate activity. The remaining portion of the data and analytic solutions and risk mitigation and business solutions segments revenues are less impacted by, or are isolated from, the volatility of real estate transactions. In the 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 real estate transactions. Traditionally, the greatest volume of real estate activity, particularly residential resale, has occurred in the spring and summer months. However, changes in interest rates, as well as other economic factors, can cause fluctuations in the traditional pattern of real estate activity.

Residential mortgage originations in the United States (based on the total dollar value of the transactions) decreased 23.3% in 2008 when compared with 2007, according to the Mortgage Bankers Association s January 12, 2009, Mortgage Finance Forecast (the MBA Forecast), and decreased 14.2% in 2007 when compared with 2006, according to the January 14, 2008, MBA Forecast. These decreases in mortgage originations reflected declines in both refinance and purchase originations. According to the MBA Forecast, the dollar amount of refinance originations and purchase originations decreased 23.1% and 23.6%, respectively, in 2008 when compared with 2007, and 11.5% and 16.8%, respectively, in 2007 relative to 2006.

On a consolidated basis, total operating revenues for the Company decreased 22.3% in 2008 from 2007; with the financial services group decreasing 27.5% and the information solutions group decreasing 7.9%. Comparing 2007 with 2006, total operating revenues decreased 5.1%; with the financial services group decreasing 8.7% and the information solutions group increasing 7.8%. The overall declines in mortgage originations, as well as the continued decline in home values, impacted the Company s financial services group. In 2008, the information solutions group was also impacted by the decline in mortgage originations as well as difficulties in the credit and securitization markets combined with economic difficulties experienced by its customers. Offsetting the impact of these factors on the financial services group and the information solutions group was the growth in default-related revenues and market share growth at the group s larger mortgage banking customers. In addition, increases in risk management related sales of data analytics and the relatively consistent revenues generated by subscription-based businesses further offset the impact of the decline in mortgage originations for the information solutions group. Lastly in 2007, operating revenues for the information solutions group benefited from acquisition activity and organic growth at the information and outsourcing solutions and risk mitigation and business solutions segments in 2007 over 2006.

Realized pre-tax net investment losses for the Company in 2008 were $100.5 million; with $88.7 million recognized at the financial services group, $10.1 million at the information solutions group and $1.7 million at Corporate. These net losses were primarily due to permanent impairment charges. Realized pre-tax net investment gains for the Company in 2007 were $65.7 million; with $77.3 million in losses recognized at the financial services group, $173.6 million in gains at the information solutions group and $30.6 million in losses at Corporate. These gains were primarily from the sale of certain long-term investments and the losses attributed to impairments of long-term assets.

Total expenses for the Company, before income taxes and minority interests, decreased 23.6% in 2008 from 2007 and increased 1.7% in 2007 over 2006. For the financial services group, the decreases were 29.2% in 2008 from 2007 and 0.1% in 2007 from 2006. For the information solutions group, the decrease in 2008 from 2007 was 4.3%, with an increase of 9.8% in 2007 over 2006. The Company-wide decrease in 2008 primarily reflected a decline in title insurance agent retention due in large part to the decline in title insurance agent revenues, reductions in employee compensation expense, primarily reflecting employee reductions and reduced benefit costs, a decline in other operating expenses due

to overall cost-containment programs and a reduction in interest expense. Contributing to the decrease for 2008 was a reduction in title insurance claims expense primarily due to

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a lower reserve strengthening adjustment recorded in 2008 as compared to 2007. Offsetting these decreases was a $19.7 million goodwill impairment charge at the risk mitigation and business solutions segment in 2008. The Company-wide increase in 2007 over 2006 primarily reflected a reserve strengthening adjustment, increased costs at the information solutions group to service the increased business volume, offset in part by employee reductions and other cost containment programs.

Net loss for 2008 was $26.3 million, or $0.28 per diluted share. Net loss for 2007 was $3.1 million, or $0.03 per diluted share. Net income for 2006 was $287.7 million, or $2.92 per diluted share.

Declines in real estate prices and transactions, as well as tightening of mortgage credit and decreases in general economic conditions continue to impact the demand for many of the Company s products and services. These conditions have also had an impact on, and continue to impact, the performance and financial condition of some of the Company s customers in many of the segments in which the Company operates; should these parties continue to encounter significant issues, those issues may lead to negative impacts on the Company s revenue, claims, earnings and liquidity.

Management expects continued weakness in the real estate and mortgage markets to continue impacting many of the Company s lines of business. Given this outlook, the Company sharpened its focus on controlling costs by reducing employee count, consolidating offices, centralizing agency and administrative functions, optimizing management structure and rationalizing its brand strategy. The Company plans to continue these efforts where appropriate. In addition, the Company will continue to scrutinize the profitability of its agency relationships, increase its offshore leverage and develop new sales opportunities. Beginning at the end of 2008, the Company initiated an effort to optimize its claims handling process through, among other things, the centralization of claims handling, enhanced corporate control over the claims process and claims process standardization.

FINANCIAL SERVICES GROUP

Title Insurance and Services

	2008	2007	2006	2008 vs. 2007		2007 vs. 2006	
				$ Change	% Change	$ Change	% Change
			(in thousands, except percentages)				
Revenues							
Direct operating revenues	$ 2,112,482	$ 2,758,142	$ 2,919,018	$ (645,660)	(23.4)	$ (160,876)	(5.5)
Agent operating revenues	1,724,687	2,629,640	3,001,965	(904,953)	(34.4)	(372,325)	(12.4)
Operating revenues	3,837,169	5,387,782	5,920,983	(1,550,613)	(28.8)	(533,201)	(9.0)
Investment and other income	159,406	247,243	204,299	(87,837)	(35.5)	42,944	21.0
Net realized investment (losses) gains	(84,505)	(79,056)	(2,364)	(5,449)	(6.9)	(76,692)	NM1
	3,912,070	5,555,969	6,122,918	(1,643,899)	(29.6)	(566,949)	(9.3)
Expenses							
Salaries and other personnel costs	1,242,846	1,637,065	1,703,082	(394,219)	(24.1)	(66,017)	(3.9)
Premiums retained by agents	1,371,802	2,107,351	2,401,440	(735,549)	(34.9)	(294,089)	(12.2)
Other operating expenses	938,115	1,167,472	1,062,870	(229,357)	(19.6)	104,602	9.8
	330,112	704,083	480,780	(373,971)	(53.1)	223,303	46.4

Provision for policy losses and other claims							
Depreciation and amortization	80,167	81,773	72,661	(1,606)	(2.0)	9,112	12.5
Premium taxes	41,527	60,330	65,976	(18,803)	(31.2)	(5,646)	(8.6)
Interest	24,730	42,578	31,000	(17,848)	(41.9)	11,578	37.3
	4,029,299	5,800,652	5,817,809	(1,771,353)	(30.5)	(17,157)	(0.3)
(Loss) income before income taxes and minority interests	$ (117,229)	$ (244,683)	$ 305,109	$ 127,454	52.1	$ (549,792)	(180.2)
Margins	(3.0)%	(4.4)%	5.0%	1.4%	32.0	(9.4)%	(188.4)

(1) Not meaningful

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Operating revenues from direct title operations decreased 23.4% in 2008 from 2007 and 5.5% in 2007 from 2006. The decrease in 2008 from 2007 was due to a decline in both the number of orders closed by the Company s direct operations and in the average revenues per order closed. The decrease in 2007 from 2006 was due to a decline in the number of orders closed by the Company s direct operations, offset in part by an increase in the average revenues per order closed. The average revenues per order closed were $1,510, $1,626 and $1,565 for 2008, 2007 and 2006, respectively. The Company s direct title operations closed 1,398,700, 1,696,500 and 1,865,700 title orders during 2008, 2007 and 2006, respectively. The fluctuations in closings primarily reflected decreasing mortgage origination activity. Operating revenues from agency title operations decreased 34.4% in 2008 from 2007 and 12.4% in 2007 from 2006. These decreases were primarily due to the same factors impacting direct title operations and the cancellation of certain agency relationships. Management is continuing to analyze the terms and profitability of its title agency relationships and is working to amend agent agreements to the extent possible. Amendments being sought include, among others, changing the percentage of premiums retained by the agent and the deductible paid by the agent on claims; if changes to the agreements cannot be made, management may elect to terminate certain agreements.

Total operating revenues for the title insurance segment (direct and agency operations) contributed by new acquisitions were $12.5 million, $67.8 million and $198.3 million for 2008, 2007 and 2006, respectively.

Investment and other income decreased 35.5% in 2008 from 2007 and increased 21.0% in 2007 over 2006. The decrease in 2008 from 2007 primarily reflected declining yields earned from the investment portfolio and a decrease in interest earned on certain escrow deposits, which reflected lower yields and lower balances. These decreases were partially offset by an increase in investment income at the Company s trust division as a result of increased deposits. The increase in 2007 over 2006 was primarily due to the growth in interest income resulting from increases in the average investment portfolio balance and higher yields.

Net realized investment losses for the title insurance segment totaled $84.5 million, $79.1 million and $2.4 million for 2008, 2007 and 2006, respectively. Net losses in 2008 were primarily driven by a $37.3 million write-down to reflect the permanent impairment of a long-term investment in a title insurance agent, a $30.3 million impairment loss on preferred securities issued by the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) and $7.5 million in other long-term asset permanent impairments. The 2007 total included $86.3 million in impairment charges on long-term assets, which primarily reflected impairment losses related to the valuations of two unconsolidated affiliates, offset in part by miscellaneous realized investment gains.

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

Title insurance personnel expenses decreased 24.1% in 2008 from 2007 and 3.9% in 2007 from 2006. Excluding new acquisitions, the decrease was 24.6% in 2008 from 2007 and 6.1% in 2007 from 2006. The decrease in 2008 from 2007 was primarily due to employee reductions, salary reductions, the modification of bonus programs and reductions in employee benefits expense, including the profit-driven 401(k) match, offset in part by employee separation costs. The reduction in the profit-driven 401(k) match is due to the fact that the Company did not meet the requirement for a 401(k) plan match in 2008. The Company reduced staff by approximately 4,300 since the beginning of 2008, incurring approximately $23.7 million in employee separation costs, and consolidated or closed 390 title offices. The decrease in salaries and other personnel expenses in 2007 from 2006 reflected a reduction in base salary expense as well as bonus expense resulting from personnel reductions and lower levels of profits. Title insurance staff reductions totaled 2,996 in 2007 and employee separation costs were $19.2 million.

The Company continues to closely monitor order volumes and related staffing levels and will adjust staffing levels as considered necessary. The Company s direct title operations opened 1,960,800, 2,401,500, and 2,510,400 orders in 2008, 2007, and 2006, respectively, representing a decrease of 18.4% in 2008 over 2007 and

a decrease of 4.3% in 2007 over 2006. These decreases primarily reflect the decline in mortgage originations, offset in part by market share growth that resulted from organic growth and acquisition activity.

A summary of agent retention and agent revenues is as follows:

	2008	2007	2006
	(in thousands, except percentages)		
Agent retention	$ 1,371,802	$ 2,107,351	$ 2,401,440
Agent revenues	$ 1,724,687	$ 2,629,640	$ 3,001,965
% retained by agents	79.5%	80.1%	80.0%

The premium split between underwriter and agents is in accordance with the respective agency contracts and can vary from region to region due to divergences in real estate closing practices, as well as rating structures. As a result, the percentage of title premiums retained by agents varies due to the geographical mix of revenues from agency operations. This change was primarily due to the cancellation and/or modification of certain agency relationships with unfavorable splits, as well as regional variances (i.e., the agency share or split varies from region to region and thus the geographic mix of agency revenues causes this variation).

Title insurance other operating expenses (principally direct operations) decreased 19.6% in 2008 from 2007 and increased 9.8% in 2007 over 2006. The decrease in 2008 from 2007 was primarily due to a decline in title production costs associated with the decrease in business volume, lower occupancy costs as a result of the consolidation/ closure of certain title offices and other cost-containment programs. Offsetting in part these decreases were $26.0 million in costs associated with office consolidation/ closure and $5.0 million in other operating costs associated with new acquisitions. The increase in 2007 over 2006 was primarily due to a $36 million reduction in the level of vendor expense reimbursements, $37.5 million of other operating expenses associated with new acquisitions, $17.1 million in expenses incurred in connection with the consolidation of certain offices and costs associated with international expansion and Louisiana Road Home recovery efforts, offset in part by cost reductions in response to the decrease in mortgage originations. The decrease in vendor expense reimbursements reflects a change in the Company s treasury management practices to include more investment programs and borrowing agreements and less vendor arrangement services; accordingly, the decrease in vendor expense reimbursements was more than offset by increased interest income.

The provision for title insurance losses, expressed as a percentage of title insurance operating revenues, was 8.6% in 2008, 13.1% in 2007 and 8.1% in 2006. During the fourth quarter of 2008, the Company recorded $78.0 million in title insurance reserve strengthening adjustments. The adjustments reflect changes in estimates for ultimate losses expected, primarily from policy years 2006 and 2007. The changes in estimates resulted primarily from higher than expected claims emergence, in both frequency and aggregate amounts, experienced during 2008, particularly for policy year 2007. There were many factors that impacted the claims emergence, including but not limited to: decreases in real estate prices during 2008; increases in defaults and foreclosures during 2008; and higher than expected claims emergence from lenders policies. Some of the additional emergence is believed to be from a change in the mix of claims toward faster-emerging claim types, shifting the aggregate development pattern toward greater emergence in the early years of development.

The current economic environment appears to have more potential for volatility than usual over the short term, particularly in regard to real estate prices and mortgage defaults, which directly affect title claims. Relevant contributing factors include general economic instability and government actions that may mitigate or exacerbate recent trends. Other factors, including factors not yet identified, may also influence claims development. This environment results in increased potential for actual claims experience to vary significantly from projections, in either direction, which would directly affect the claims provision. If actual claims vary significantly from expected, reserves may need to be adjusted to

reflect updated estimates of future claims.

The volume and timing of title insurance claims are subject to cyclical influences from real estate and mortgage markets. Title policies issued to lenders are a large portion of the Company s title insurance volume. These policies insure lenders against losses on mortgage loans due to title defects in the collateral property. Even if an underlying title defect exists that could result in a claim, often the lender must realize an actual loss, or at least be likely to realize an actual loss, for title insurance liability to exist. As a result, title insurance claims exposure is sensitive to lenders losses on mortgage loans, and is affected in turn by external factors that affect mortgage loan losses.

A general decline in real estate prices can expose lenders to greater risk of losses on mortgage loans, as loan-to-value ratios increase and defaults and foreclosures increase. This environment increases the potential for claims on lenders title policies. Title insurance claims exposure for a given policy year is also affected by the quality of mortgage loan underwriting during the corresponding origination year. Management believes that sensitivity of claims to external conditions in real estate and mortgage markets is an inherent feature of title insurance s business economics that applies broadly to the title insurance industry. Lenders have been experiencing higher losses on mortgage loans from prior years, including loans that were originated during the past several years. These losses have led to higher title insurance claims on lenders policies, and also have accelerated the reporting of claims that would have been realized later under more normal conditions.

Loss ratios (projected to ultimate value) for policy years 1991-2004 are all below 6.0% and average 4.8%. By contrast, loss ratios for policy years 2005-2007 range from 7.5% to 7.7%. The major causes of the higher loss ratios for those three policy years are believed to be confined mostly to that period. These causes included: rapidly increasing residential real estate prices which led to an increase in the incidences of fraud, lower mortgage loan underwriting standards and a higher concentration than usual of subprime mortgage loan originations.

The projected ultimate loss ratio for policy year 2008 is 6.6%, which is lower than the ratios for 2005 through 2007. This is based in part on an assumption that more favorable underwriting conditions existed in 2008 than in 2005-2007, including tighter loan underwriting standards and lower housing prices.

During the latter part of 2007 and 2008, mortgage loan underwriting standards became more stringent and housing price levels decreased. These increased standards would be expected to reduce the claims risk for title insurance policies issued later in 2007 and in 2008. While the second half of policy year 2007 initially showed signs of more favorable claims experience, development during calendar year 2008 for policy year 2007 was greater than expected. Higher-than-expected development on lenders policies surpassed favorable experience on owners policies. This is believed to be due to severe declines in real estate prices during 2008 in combination with high foreclosure rates, which are conditions that generally increase the frequency and severity of title claims on lenders policies for recent policy years. In early 2008, the current credit environment was tighter than in 2007, resulting in higher quality mortgage loans underlying current title policies and a lower proportion of subprime loans. Lower residential real estate prices also reduce potential risk exposure on policies being issued currently. For these reasons management expects the trend of declining policy year loss ratios to continue with the 2008 policy year.

The rate for 2007 included $365.9 million in reserve strengthening adjustments, which reflected changes in estimates for ultimate losses expected, primarily from policy years 2004 through 2006. The changes in estimates resulted primarily from higher than expected claims emergence, in both frequency and aggregate amounts, experienced during 2007. There were many factors that impacted the claims emergence, including but not limited to: decreases in real estate prices during 2007; increases in defaults and foreclosures during 2007; a large single fraud loss from a closing protection letter claim involving multiple properties; higher-than-expected claims emergence for business from a large agent; and higher-than-expected claims emergence from a recently-acquired underwriter.

Policy years prior to 2006 developed slightly favorably to expected, in total. In particular, policy years 2004 and 2005 each developed favorably to expected, despite the severity of economic conditions for loss

development during calendar year 2008. Management believes these policy years are appropriately reserved and, because of their maturities, may be less sensitive to calendar-period economic events than less mature policy years.

Insurers generally are not subject to state income or franchise taxes. However, in lieu thereof, a premium tax is imposed on certain operating revenues, as defined by statute. Tax rates and bases vary from state to state; accordingly, the total premium tax burden is dependent upon the geographical mix of operating revenues. The Company s underwritten title company (noninsurance) subsidiaries are subject to state income tax and do not pay premium tax. Accordingly, the Company s total tax burden at the state level for the title insurance segment is composed of a combination of premium taxes and state income taxes. Premium taxes as a percentage of title insurance operating revenues remained relatively constant at approximately 1.1%.

In general, the title insurance business is a lower profit margin business when compared to the Company s other segments. The lower profit margins reflect the high cost of producing title evidence 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. In addition, profit margins from refinance transactions vary depending on whether they are centrally processed or locally processed. Profit margins from resale, new construction and centrally processed refinance transactions are generally higher than from locally processed refinancing transactions because in many states there are premium discounts on, and cancellation rates are higher for, refinance transactions. Title insurance profit margins are also affected by the percentage of operating revenues 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 margin losses were 3.0% and 4.4% for the years ended December 31, 2008 and 2007, respectively. Pre-tax margin was 5.0% for the year ended December 31, 2006.

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Specialty Insurance

	2008	2007	2006	2008 vs. 2007		2007 vs. 2006	
				$ Change	% Change	$ Change	% Change
	(in thousands, except percentages)						
Revenues							
Operating revenues	$ 286,321	$ 302,822	$ 309,261	$ (16,501)	(5.4)	$ (6,439)	(2.1)
Investment and other income	15,657	18,848	17,450	(3,191)	(16.9)	1,398	8.0
Net realized investment (losses) gains	(4,161)	1,770	1,668	(5,931)	(335.1)	102	6.1
	297,817	323,440	328,379	(25,623)	(7.9)	(4,939)	(1.5)
Expenses							
Salaries and other personnel costs	56,532	60,585	61,502	(4,053)	(6.7)	(917)	(1.5)
Other operating expenses	49,703	50,962	47,697	(1,259)	(2.5)	3,265	6.8
Provision for policy losses and other claims	166,004	165,192	154,806	812	0.5	10,386	6.7
Depreciation and amortization	3,329	2,190	1,947	1,139	52.0	243	12.5
Premium taxes	4,366	4,776	5,152	(410)	(8.6)	(376)	(7.3)
Interest	24	7	869	17	242.9	(862)	(99.2)
	279,958	283,712	271,973	(3,754)	(1.3)	11,739	4.3
Income (loss) before income taxes and minority interests	$ 17,859	$ 39,728	$ 56,406	$ (21,869)	(55.0)	$ (16,678)	(29.6)
Margins	6.0%	12.3%	17.2%	(6.3)%	(51.2)	(4.9)%	(28.5)

Specialty insurance operating revenues decreased 5.4% in 2008 over 2007 and 2.1% in 2007 over 2006. The decrease in 2008 from 2007 primarily reflected a decline in business volume impacting both the property and casualty insurance division and the home warranty division. The decrease in 2007 from 2006 was due to the decline in home warranty business volume, offset in part by market share growth at the Company s property and casualty insurance renters division.

Investment and other income decreased 16.9% in 2008 from 2007 and increased 8.0% in 2007 over 2006. The decrease in 2008 from 2007 was primarily due to a decline in the average investment portfolio balance as well as a decrease in yields earned from the portfolio.

Net realized investment losses for the specialty insurance segment totaled $4.2 million in 2008, compared with net realized investment gains of $1.8 million and $1.7 million for 2007 and 2006, respectively. The current year net losses were primarily driven by realized losses on the sale of certain securities as well as a $0.9 million impairment loss on Fannie Mae and Freddie Mac preferred securities.

Specialty insurance salaries and other personnel costs and other operating expenses decreased 6.7% in 2008 from 2007 and 1.5% in 2007 from 2006. The decreases were primarily due to employee reductions as well as other cost-containment programs.

The provision for home warranty claims, expressed as a percentage of home warranty operating revenues, was 60.5% in 2008, 53.8% in 2007 and 50.5% in 2006. The increase in rate from 2008 over 2007 was primarily due to an increase in frequency and severity of claims. The increase in the rate from 2007 over 2006 was primarily due to an increase in claims severity. The average cost per claim increased due in part to an increase in the cost of replacing air conditioners with models that met new federal guidelines related to energy efficiency.

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The provision for property and casualty claims, expressed as a percentage of property and casualty operating revenues, was 54.3% in 2008, 55.6% in 2007 and 49.4% in 2006. The increase in the rate from 2007 over 2006 was the result of a $5.0 million incurred loss deductible before reinsurance recoveries on Southern California wildfires in October 2007 and $3 million incurred on winter freeze losses in January 2007.

Premium taxes as a percentage of specialty insurance operating revenues were 1.5% in 2008, 1.6% in 2007 and 1.7% in 2006.

A large part of the revenues for the specialty insurance businesses are not dependent on the level of real estate activity, due to the fact that a large portion are generated from renewals. 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 revenues increase. Pre-tax margins were 6.0%, 12.3% and 17.2% for 2008, 2007 and 2006, respectively. These decreases primarily reflected increased claims activity at the home warranty business and investment losses.

INFORMATION SOLUTIONS

Information and Outsourcing Solutions

	2008	2007	2006	2008 vs. 2007		2007 vs. 2006	
				$ Change	% Change	$ Change	% Change
	(in thousands, except percentages)						
Revenues							
Operating revenues	$ 688,349	$ 742,870					