FIRST AMERICAN CORP
Form 10-K/A
October 08, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

x **AMENDMENT NO. 2 TO 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	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**

1 First American Way, Santa Ana, California 92707-5913

(Address of principal executive offices) (Zip Code)

(714) 250-3000

Registrant s telephone number, including area code

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 October 6, 2009, there were 93,579,332 shares of common stock outstanding.

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EXPLANATORY NOTE

On March 2, 2009, The First American Corporation (the Company) filed its Annual Report on Form 10-K for the year ended December 31, 2008 with the Securities and Exchange Commission and on April 24, 2009 the Company amended that filing to include the information required by Part III of Form 10-K. The Company is filing this amendment to add certain footnote disclosure in Note 1 regarding an investment in an affiliate and to correct a typographical error in the salaries and other personnel costs line item of the consolidated statements of income for the year ended December 31, 2008. Additionally, in connection with the anticipated filing of a Registration Statement on Form S-4, the Company is amending its Annual Report on Form 10-K to retroactively adopt the presentation and disclosure requirements of Statement of Financial Accounting Standards No. 160 Noncontrolling Interest in Consolidated Financial Statements an amendment of ARB No. 51 as required by the instructions for the Registration Statement on Form S-4. Except as set forth herein, the Company is not further amending any information contained within its Annual Report on Form 10-K for the fiscal year ended December 31, 2008 and has not undertaken to update forward-looking or other disclosures contained therein to speak as of the date of the amendment.

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PART II

Item 6. Selected Financial Data

The selected consolidated financial data for The First American Corporation (the Company) for the five-year period ended December 31, 2008, has been derived from the Consolidated Financial Statements. The five-year selected consolidated financial data has been retrospectively adjusted as required by the Company s adoption of Statement of Financial Accounting Standards No. 160 Noncontrolling Interest in Consolidated Financial Statements an amendment of ARB No. 51 . 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 attributable to the Company	$ (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 *(Note A)*	$ 2,697,650	$ 2,975,398	$ 3,202,281	$ 3,005,519	$ 2,468,408
Return on average stockholders equity	(0.9)%	(0.1)%	9.3%	17.6%	15.9%
Dividends on common shares	$ 81,542	$ 82,833	$ 69,213	$ 68,636	$ 52,403
Per share of common stock *(Note B)* Net (loss) income attributable to the Company:					
Basic	$ (0.28)	$ (0.03)	$ 2.99	$ 5.09	$ 4.00
Diluted	$ (0.28)	$ (0.03)	$ 2.92	$ 4.92	$ 3.80
Stockholders equity *(Note A)*	$ 29.02	$ 32.40	$ 33.19	$ 31.35	$ 27.41
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
Other Operating Data (unaudited):					
Title orders opened *(Note C)*	1,961	2,402	2,510	2,700	2,519
Title orders closed *(Note C)*	1,399	1,697	1,866	2,017	1,909
Number of employees *(Note D)*	31,411	37,354	39,670	37,883	30,994

Note A Stockholders equity refers to the stockholders of The First American Corporation and excludes noncontrolling interests.

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

Note D 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.

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.

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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.

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.

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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.

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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.

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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 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.

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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.

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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. Retroactive application of the presentation and disclosure requirements has been provided herein. All other requirements of SFAS 160 will be applied prospectively. Except for the required presentation and disclosures, the adoption of SFAS 160 had no material impact on the Company s 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, 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

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decrease for 2008 was a reduction in title insurance claims expense primarily due to 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 attributable to the Company for 2008 was $26.3 million, or $0.28 per diluted share. Net loss attributable to the Company for 2007 was $3.1 million, or $0.03 per diluted share. Net income attributable to the Company 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.

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FINANCIAL SERVICES GROUP

Title Insurance and Services

	2008	2007	2006	2008 vs. 2007 $ Change	2008 vs. 2007 % Change	2007 vs. 2006 $ Change	2007 vs. 2006 % 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)	NM[1]
	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
Provision for policy losses and other claims	330,112	704,083	480,780	(373,971)	(53.1)	223,303	46.4
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	$ (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

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

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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

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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	$ 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.

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.

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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	$ 689,318	$ (54,521)	(7.3)	$ 53,552	7.8
Investment and other income	51,106	44,242	28,228	6,864	15.5	16,014	56.7
Net realized investment (losses) gains	(287)	(437)	(54)	150	34.3	(383)	(709.3)
	739,168	786,675	717,492	(47,507)	(6.0)	69,183	9.6
Expenses							
Salaries and other personnel costs	194,662	219,097	225,549	(24,435)	(11.2)	(6,452)	(2.9)
Other operating expenses	358,334	370,802	294,356	(12,468)	(3.4)	76,446	26.0
Provision for policy losses and other claims	23,898	18,086	18,793	5,812	32.1	(707)	(3.8)
Depreciation and amortization	23,346	22,023	23,533	1,323	6.0	(1,510)	(6.4)
Interest	(6,233)	(5,419)	(4,573)	(814)	(15.0)	(846)	(18.5)
	594,007	624,589	557,658	(30,582)	(4.9)	66,931	12.0
Income (loss) before income taxes	$ 145,161	$ 162,086	$ 159,834	$ (16,925)	(10.4)	$ 2,252	1.4
Margins	19.6%	20.6%	22.3%	(1.0)%	(4.7)	(1.7)%	(7.5)

Information and outsourcing solutions operating revenues decreased 7.3% in 2008 from 2007 and increased 7.8% in 2007 from 2006. The revenue decrease in 2008 from 2007 primarily reflected a decline in volume at the tax service, flood certification, traditional appraisal businesses due to the continued decline in mortgage originations, and revenues from the Louisiana Road Home Project, offset in part by an increase in volume for default and outsourcing services and default-related valuation products due to higher default and foreclosure activity throughout most of 2008. The increase in revenues in 2007 relative to 2006 was attributed to growth in default-related revenues and organic growth in the appraisal division. Those increases were offset by decreases in revenue at the mortgage origination dependent businesses attributable to declining mortgage origination volumes. Also negatively impacting the revenues at the tax service business in both 2008 and 2007 were net increases in the required deferred revenue adjustment totaling $1.3 million in 2008 and $1.9 million in 2007 due to the lengthening of the service period associated with that portfolio.

Total operating revenues for the information and outsourcing solutions segment contributed by new acquisitions were $4.6 million, $3.7 million and $5.6 million for 2008, 2007 and 2006, respectively.

Information and outsourcing solutions investment and other income totaled $51.1 million, $44.2 million and $28.2 million for 2008, 2007 and 2006, respectively, increases of 15.5% in 2008 from 2007 and 56.7% in 2007 from 2006. The increase in investment income in 2008 from 2007 and 2007 from 2006 primarily reflects the growth in and improved results of the segment s national joint ventures.

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Information and outsourcing solutions salary and other personnel expenses decreased 11.2% in 2008 from 2007 and 2.9% in 2007 from 2006. Included in information and outsourcing solutions personnel expenses for 2008, 2007 and 2006 were $2.5 million, $2.3 million and $4.2 million of costs associated with new acquisitions, respectively. These 2008 decreases were primarily due to general expense reductions in response to the decrease in business volume, including gross domestic headcount reductions in force of 8.8%, and reductions in employee benefit expenses, including bonus and the profit-driven 401(k) match offset by the benefit of the employees transferred to other segments for management reporting purposes. 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. These decreases were offset by increased expenses at the default-related businesses due to increased revenues at those entities under the current market conditions. Also offsetting these decreases in 2008 was an increase in severance expense of $3.1 million. Information and outsourcing solutions salary and other personnel expenses decreased 2.9% in 2007 from 2006. The 2007 decrease relative to 2006 reflect general expense reductions in response to the decrease in mortgage originations, decreases in headcount and continued off shoring initiatives offset in part by increased costs at the default division necessary to service the increased business volume.

Information and outsourcing solutions other operating expenses decreased 3.4% in 2008 over 2007 and increased 26.0% in 2007 over 2006. The decrease in 2008 over 2007 was primarily due to general expense reductions in response to the decrease in business volume, primarily at the tax servicing, flood and appraisal-related businesses, as well as the impact of management s cost savings initiatives, offset by increased expenses at the default-related businesses due to increased revenues at those entities resulting from the current market conditions, $2.1 million of costs associated with new acquisitions, and increased legal fees primarily associated with appraisal-related cases. The increase in 2007 over 2006 was primarily due to approximately $17.0 million in increased costs at the default division (i.e., inspection fees and property preservation costs) associated with the increase in default business, an increase in third party appraiser fees due primarily to the growth in the appraisal business and $1.7 million of costs associated with new acquisitions.

The provision for policy losses and other claims increased by 32.1% in 2008 relative to 2007, due to a significant one-time loss associated primarily with commercial tax outsourcing, higher than usual levels of claims on traditional tax outsourcing and increases in the level of business at default-related entities (which typically carry a higher level of claims).

Many of the businesses included in the information and outsourcing solutions segment have a relatively high proportion of fixed costs. As such, profit margins generally decline as revenues decline, with default-related products providing some counter-cyclicality. Revenues for the information and outsourcing solutions segment are primarily dependent on the level of mortgage origination and servicing activity. The information and outsourcing solutions segment had pre-tax margins 19.6%, 20.6% and 22.3%, in 2008, 2007 and 2006 respectively. The pre-tax margin in 2008 was impacted by the reduction in revenues, a shift in the revenues and the impact of the adjustments to the tax service revenue. Offsetting these factors were benefits from cost reduction efforts as well as the strength of the segment s relationships with large, national lenders that have experienced market share growth in spite of the current market conditions.

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Data and Analytic Solutions

	2008	2007	2006	2008 vs. 2007 $ Change	2008 vs. 2007 % Change	2007 vs. 2006 $ Change	2007 vs. 2006 % Change
	(in thousands, except percentages)						
Revenues							
Direct operating revenues	$ 589,480	$ 632,214	$ 572,709	$ (42,734)	(6.8)	$ 59,505	10.4
Agent operating revenues	4,753	7,464	6,124	(2,711)	(36.3)	1,340	21.9
Operating revenues	594,233	639,678	578,833	(45,445)	(7.1)	60,845	10.5
Investment and other income	5,323	4,899	6,276	424	8.7	(1,377)	(21.9)
Net realized investment (losses) gains	(3,536)	56,808	148	(60,344)	(106.2)	56,660	38,283.8
	596,020	701,385	585,257	(105,365)	(15.0)	116,128	19.8
Expenses							
Salaries and other personnel costs	320,738	332,038	283,851	(11,300)	(3.4)	48,187	17.0
Premiums retained by agents	2,650	4,447	3,452	(1,797)	(40.4)	995	28.8
Other operating expenses	102,499	117,605	132,058	(15,106)	(12.8)	(14,453)	(10.9)
Provision for policy losses and other claims	13,310	6,581	2,671	6,729	102.2	3,910	146.3
Depreciation and amortization	69,310	65,482	47,031	3,828	5.8	18,451	39.2
Premium taxes	473	614	631	(141)	(23.0)	(17)	(2.7)
Interest	7,463	8,395	2,637	(932)	(11.1)	5,758	218.4
	516,443	535,162	472,331	(18,719)	(3.5)	62,831	13.3
Income (loss) before income taxes	$ 79,577	$ 166,223	$ 112,926	$ (86,646)	(52.1)	$ 53,297	47.2
Margins	13.4%	23.7%	19.3%	(10.3)%	(43.7)	4.4%	22.8

Data and analytic solutions segment operating revenues decreased 6.8% in 2008 over 2007 and increased 10.4% in 2007 over 2006. The decrease in 2008 over 2007 was primarily due to the effects of the continued slowdown in mortgage originations and the ongoing tightening of the credit markets. These conditions have resulted in a decrease for many of the segment s traditional loan origination related products, a decrease in mortgage securitization risk analytics, and a drop in the demand for some of the mortgage analytic product offerings; these decreases were offset in part by growth in securities analytics and risk mitigation, custom and licensing product revenues. The increase in 2007 over 2006 primarily reflected $70.1 million of operating revenues contributed by new acquisitions. This increase was offset in part by the decline in mortgage originations and the tightening of the credit markets which led to a decrease in mortgage securitization activity and therefore the demand for some of the mortgage analytic product offerings.

Data and analytic solutions investment and other income totaled $5.3 million, $4.9 million and $6.3 million for 2008, 2007 and 2006, respectively, an increase of 8.7% in 2008 from 2007 and a decrease of 21.9% in 2007 from 2006.

Data and analytic solutions net realized investment losses totaled $3.5 million in 2008 and net realized investment gains totaled $56.8 million and $0.1 million in 2007 and 2006, respectively. The net realized investment loss during 2008 reflects a $3.6 million investment loss related to a decline in value of Fannie Mae and Freddie Mac securities. The net realized investment gain in 2007 included a $77.1 million realized gain resulting from the combination of the Company s RES division with CoreLogic Systems, Inc. Offsetting in part the 2007 realized gains were realized investment losses of $22.2 million consisting of impairment losses related to the permanent impairment of certain unconsolidated affiliates.

Data and analytic solutions salary and other personnel expenses decreased 3.4% in 2008 over 2007 and increased 17.0% in 2007 over 2006. When excluding the impact of employees transferred into the segment during the current year for management reporting purposes, salaries and other personnel expenses were down $11.3 million in comparison to 2007. This decrease was primarily due to general expense reductions in response to the decrease in business volume, including gross domestic headcount reductions in force of 12.8%, and reductions in employee benefit expenses, including bonus and the profit-driven 401(k) match. 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. Offsetting this decrease was an increase in severance expense of $5.3 million. The 2007 increase over 2006 was primarily related to increased expense associated with risk analytics and off shoring activities, which had the effect of minimizing the increase in other costs. Excluding acquisition activity, data and analytic solutions personnel expenses increased in 2007 by 5.6%. Included in salary and other personnel expenses for 2007 were $1.7 million of costs associated with employee terminations and other restructuring expenses.

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Data and analytic solutions other operating expenses decreased 12.8% in 2008 over 2007 and 10.9% in 2007 over 2006. Excluding other operating expenses of $2.0 million and $30.3 million associated with new acquisitions for the respective periods, other operating expenses for data and analytic solutions decreased 14.6% in 2008 over 2007 and 33.9% in 2007 over 2006. These decreases were primarily due to the overall decline in business volumes and the impact of cost savings initiatives implemented by management. Offsetting the decrease in 2008 were increases in restructuring costs totaling $6.7 million.

The provision for policy losses and other claims was $13.3 million, $6.6 million and $2.7 million for 2008, 2007 and 2006, respectively, increases of $6.7 million, or 102.2% in 2008 from 2007 and $3.9 million, or 146.4% in 2007 from 2006. The provision for policy losses and other claims increased approximately $4.7 million in 2008 due to loss expense related to prior year claims on the segment s second lien title product.

Many of the businesses included in the data and analytic solutions segment are database intensive, with a relatively high proportion of fixed costs. As such, profit margins generally decline as revenues decline. Revenues for the data and analytic solutions segment are, in part, dependent on real estate activity but are less cyclical as a result of a more diversified customer base and a greater percentage of subscription-based revenue. Pre-tax margins were 13.4%, 23.7% and 19.3%, for 2008, 2007 and 2006, respectively. The lower revenues, combined with the high level of fixed costs, primarily drove the decrease in 2008 over 2007; the impact of these items was offset by the impact of the cost cutting initiatives implemented by management. If the results of the impact of the gain recognized in connection with the acquisition of CoreLogic Systems, Inc. had been excluded, margins for 2007 would have been 14.3%. Management of this segment s second lien product title operations is being transferred back to the title segment effective January 1, 2009. If the results of these operations were excluded, margins for 2008 would have been 16.4%.

Risk Mitigation and Business Solutions

	2008	2007	2006	2008 vs. 2007		2007 vs. 2006	
				$ Change	% Change	$ Change	% Change
	(in thousands, except percentages)						
Revenues							
Operating revenues	$ 779,109	$ 856,542	$ 809,723	$ (77,433)	(9.0)	$ 46,819	5.8
Investment and other income	9,422	10,947	11,122	(1,525)	(13.9)	(175)	(1.6)
Net realized investment (losses) gains	(6,257)	117,237	6,816	(123,494)	(105.3)	110,421	1,620.0
	782,274	984,726	827,661	(202,452)	(20.6)		