UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2017

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 001-34580

FIRST AMERICAN FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

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

(714) 250-3000
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐
Emerging growth company	☐		

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

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ☐ No ☐

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

On July 21, 2017, there were 110,721,195 shares of common stock outstanding .

FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES

INFORMATION INCLUDED IN REPORT

PART I: FINANCIAL INFORMATION

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THIS QUARTERLY REPORT ON FORM 10- Q CONTAINS FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED, AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. THESE FORWARD - LOOKING STATEMENTS CAN BE IDENTIFIED BY THE FACT THAT THEY DO NOT RELATE STRICTLY TO HISTORICAL OR CURRENT FACTS AND MAY CONTAIN THE WORDS "BELIEVE," "ANTICIPATE," "EXPECT," "INTEND," "PLAN," "PREDICT," "ESTIMATE," "PROJECT," "WILL BE," "WILL CONTINUE," " WILL LIKELY RESULT," OR OTHER SIMILAR WORDS AND PHRASES OR FUTURE OR CONDITIONAL VERBS SUCH AS "WILL," "MAY," "MIGHT," "SHOULD," "WOULD," OR "COULD." THESE FORWARD-LOOKING STATEMENTS INCLUDE, WITHOUT LIMITATION, STATEMENTS REGARDING FUTURE OPERATIONS, PERF ORMANCE, FINANCIAL CONDITION, PROSPECTS, PLANS AND STRATEGIES. THESE FORWARD-LOOKING STATEMENTS ARE BASED ON CURRENT EXPECTATIONS AND ASSUMPTIONS THAT MAY PROVE TO BE INCORRECT.

RISKS AND UNCERTAINTIES EXIST THAT MAY CAUSE RESULTS TO DIFFER MATERIALLY FROM THOSE SET FORTH IN THESE FORWARD-LOOKING STATEMENTS. FACTORS THAT COULD CAUSE THE ANTICIPATED RESULTS TO DIFFER FROM THOSE DESCRIBED IN THE FORWARD-LOOKING STATEMENTS INCLUDE, WITHOUT LIMITATION:

- *INTEREST RATE FLUCTUATIONS;*
- *CHANGES IN THE PERFORMANCE OF THE REAL ESTATE MARKETS;*
- *VOLATILITY IN THE CAPITAL MARKETS;*
- *UNFAVORABLE ECONOMIC CONDITIONS;*
- *IMPAIRMENTS IN THE COMPANY'S GOODWILL OR OTHER INTANGIBLE ASSETS;*
- *FAILURES AT FINANCIAL INSTITUTIONS WHERE THE COMPANY DEPOSITS FUNDS;*
- *CHANGES IN APPLICABLE LAWS AND GOVERNMENT REGULATIONS;*
- *HEIGHTENED SCRUTINY BY LEGISLATORS AND REGULATORS OF THE COMPANY'S TITLE INSURANCE AND SERVICES SEGMENT AND CERTAIN OTHER OF THE COMPANY'S BUSINESSES;*
- *USE OF SOCIAL MEDIA BY THE COMPANY AND OTHER PARTIES;*
- *REGULATION OF TITLE INSURANCE RATES;*
- *LIMITATIONS ON ACCESS TO PUBLIC RECORDS AND OTHER DATA;*
- *CHANGES IN RELATIONSHIPS WITH LARGE MORTGAGE LENDERS AND GOVERNMENT-SPONSORED ENTERPRISES;*
- *CHANGES IN MEASURES OF THE STRENGTH OF THE COMPANY'S TITLE INSURANCE UNDERWRITERS, INCLUDING RATINGS AND STATUTORY CAPITAL AND SURPLUS;*
- *LOSSES IN THE COMPANY'S INVESTMENT PORTFOLIO;*
- *MATERIAL VARIANCE BETWEEN ACTUAL AND EXPECTED CLAIMS EXPERIENCE;*
- *DEFALCATIONS, INCREASED CLAIMS OR OTHER COSTS AND EXPENSES ATTRIBUTABLE TO THE COMPANY'S USE OF TITLE AGENTS;*
- *ANY INADEQUACY IN THE COMPANY'S RISK MANAGEMENT FRAMEWORK;*
- *SYSTEMS DAMAGE, FAILURES, INTERRUPTIONS AND INTRUSIONS, OR UNAUTHORIZED DATA DISCLOSURES;*
- *ERRORS AND FRAUD INVOLVING THE TRANSFER OF FUNDS;*
- *THE COMPANY'S USE OF A GLOBAL WORKFORCE;*
- *INABILITY OF THE COMPANY'S SUBSIDIARIES TO PAY DIVIDENDS OR REPAY FUNDS;*
- *INABILITY TO REALIZE THE BENEFITS OF, AND CHALLENGES ARISING FROM, THE COMPANY'S ACQUISITION STRATEGY; AND*

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

THE FORWARD-LOOKING STATEMENTS SPEAK ONLY AS OF THE DATE THEY ARE MADE. THE COMPANY DOES NOT UNDERTAKE TO UPDATE FORWARD-LOOKING STATEMENTS TO REFLECT CIRCUMSTANCES OR EVENTS THAT OCCUR AFTER THE DATE THE FORWARD-LOOKING STATEMENTS ARE MADE.

PART I: FINANCIAL INFORMATION

Item 1. Financi al Statements.

FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES

Condensed Consolidated Balance Sheets
(in thousands, except par values)
(unaudited)

	June 30, 2017	December 31, 2016
Assets		
Cash and cash equivalents	$ 1,166,764	$ 1,006,138
Accounts and accrued income receivable, net	323,385	299,799
Income taxes receivable	7,902	67,970
Investments:		
Deposits with banks	21,762	21,222
Debt securities, includes pledged securities of $112,971 and $110,647	4,849,595	4,553,363
Equity securities	426,788	404,085
Other investments	160,455	162,029
	5,458,600	5,140,699
Property and equipment, net	433,038	434,050
Title plants and other indexes	572,780	564,309
Deferred income taxes	20,037	20,037
Goodwill	1,031,943	1,017,417
Other intangible assets, net	77,808	78,898
Other assets	222,029	202,460
	$ 9,314,286	$ 8,831,777
Liabilities and Equity		
Deposits	$ 3,097,796	$ 2,779,478
Accounts payable and accrued liabilities	696,992	793,955
Deferred revenue	233,607	228,905
Reserve for known and incurred but not reported claims	1,017,232	1,025,863
Income taxes payable	93,888	10,376
Deferred income taxes	242,158	242,158
Notes and contracts payable	734,455	736,693
	6,116,128	5,817,428
Commitments and contingencies (Note 13)		
Stockholders' equity:		
Preferred stock, $0.00001 par value; Authorized—500 shares; Outstanding—none	—	—
Common stock, $0.00001 par value; Authorized—300,000 shares; Outstanding—110,721 shares and 109,944 shares	1	1
Additional paid-in capital	2,215,849	2,191,756
Retained earnings	1,150,582	1,046,822
Accumulated other comprehensive loss	(173,009)	(230,400)
Total stockholders' equity	3,193,423	3,008,179
Noncontrolling interests	4,735	6,170
Total equity	3,198,158	3,014,349
	$ 9,314,286	$ 8,831,777

See notes to condensed consolidated financial statements.

FIRST AMERICAN FIN ANCIAL CORPORATION
AND SUBSIDIARY COMPANIES

Condensed Consolidated Statements of Income

(in thousands, except per share amounts)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenues				
Direct premiums and escrow fees	$ 641,080	$ 623,975	$ 1,168,089	$ 1,125,889
Agent premiums	554,028	515,792	1,128,610	1,028,037
Information and other	201,851	182,771	384,360	337,848
Net investment income	39,609	30,925	72,649	58,295
Net realized investment gains	17,861	8,070	17,764	13,176
	1,454,429	1,361,533	2,771,472	2,563,245
Expenses				
Personnel costs	444,418	417,725	859,548	800,437
Premiums retained by agents	435,771	403,669	889,697	808,708
Other operating expenses	222,814	216,361	430,223	403,036
Provision for policy losses and other claims	110,958	122,360	213,346	229,458
Depreciation and amortization	30,145	23,994	60,292	46,414
Premium taxes	17,179	16,027	32,627	30,404
Interest	8,990	7,790	17,705	15,589
	1,270,275	1,207,926	2,503,438	2,334,046
Income before income taxes	184,154	153,607	268,034	229,199
Income taxes	62,259	51,156	88,070	74,076
Net income	121,895	102,451	179,964	155,123
Less: Net (loss) income attributable to noncontrolling interests	(362)	302	(575)	473
Net income attributable to the Company	$ 122,257	$ 102,149	$ 180,539	$ 154,650
Net income per share attributable to the Company's stockholders (Note 8):				
Basic	$ 1.10	$ 0.92	$ 1.62	$ 1.40
Diluted	$ 1.09	$ 0.92	$ 1.61	$ 1.40
Cash dividends declared per share	$ 0.34	$ 0.26	$ 0.68	$ 0.52
Weighted-average common shares outstanding (Note 8):				
Basic	111,549	110,480	111,374	110,327
Diluted	112,199	110,978	112,026	110,842

See notes to condensed consolidated financial statements.

FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES

Condensed Consolidated Statements of Comprehensive Income
(in thousands)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	**2016**	**2017**	**2016**
Net income	$ 121,895	$ 102,451	$ 179,964	$ 155,123
Other comprehensive income (loss), net of tax:				
Unrealized gains on securities	12,634	17,681	38,085	49,508
Foreign currency translation adjustment	8,709	(5,579)	12,143	6,525
Pension benefit adjustment	3,637	3,621	7,170	7,217
Total other comprehensive income (loss), net of tax	24,980	15,723	57,398	63,250
Comprehensive income	146,875	118,174	237,362	218,373
Less: Comprehensive (loss) income attributable to noncontrolling interests	(362)	272	(568)	489
Comprehensive income attributable to the Company	$ 147,237	$ 117,902	$ 237,930	$ 217,884

See notes to condensed consolidated financial statements.

FIRST AM ERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES

Condensed Consolidated Statement of Stockholders' Equity

(in thousands)
(unaudited)

	First American Financial Corporation Stockholders							
	Shares	**Common stock**	**Additional paid-in capital**	**Retained earnings**	**Accumulated other comprehensive loss**	**Total stockholders' equity**	**Noncontrolling interests**	**Total**
Balance at December 31, 2016	109,944	$ 1	$ 2,191,756	$ 1,046,822	$ (230,400)	$ 3,008,179	$ 6,170	$ 3,014,349
Net income for six months ended June 30, 2017	—	—	—	180,539	—	180,539	(575)	179,964
Dividends on common shares	—	—	—	(75,099)	—	(75,099)	—	(75,099)
Shares issued in connection with share-based compensation plans	777	—	(487)	(1,680)	—	(2,167)	—	(2,167)
Share-based compensation	—	—	24,580	—	—	24,580	—	24,580
Net activity related to noncontrolling interests	—	—	—	—	—	—	(867)	(867)
Other comprehensive income (Note 12)	—	—	—	—	57,391	57,391	7	57,398
Balance at June 30, 2017	110,721	$ 1	$ 2,215,849	$ 1,150,582	$ (173,009)	$ 3,193,423	$ 4,735	$ 3,198,158

See notes to condensed consolidated financial statements.

FIRST AMERICAN FINANCIAL COR PORATION
AND SUBSIDIARY COMPANIES

Condensed Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	Six Months Ended June 30,	
	2017	**2016**
Cash flows from operating activities:		
Net income	$ 179,964	$ 155,123
Adjustments to reconcile net income to cash provided by operating activities:		
Provision for policy losses and other claims	213,346	229,458
Depreciation and amortization	60,292	46,414
Amortization of premiums and accretion of discounts on debt securities, net	16,666	13,082
Excess tax benefits from share-based compensation	—	(3,137)
Net realized investment gains	(17,764)	(13,176)
Share-based compensation	24,580	21,968
Equity in earnings of affiliates, net	(3,447)	(3,018)
Dividends from equity method investments	5,562	3,749
Changes in assets and liabilities excluding effects of acquisitions and noncash transactions:		
Claims paid, including assets acquired, net of recoveries	(225,849)	(225,568)
Net change in income tax accounts	104,656	7,486
Increase in accounts and accrued income receivable	(18,411)	(24,946)
Decrease in accounts payable and accrued liabilities	(92,662)	(60,826)
Decrease in deferred revenue	2,468	3,895
Other, net	(14,797)	(4,118)
Cash provided by operating activities	234,604	146,386
Cash flows from investing activities:		
Net cash effect of acquisitions/dispositions	(3,933)	(18,432)
Net decrease in deposits with banks	110	968
Purchases of debt and equity securities	(1,029,861)	(899,629)
Proceeds from sales of debt and equity securities	499,526	259,915
Proceeds from maturities of debt securities	276,843	436,125
Net change in other investments	2,105	2,346
Capital expenditures	(69,553)	(60,939)
Proceeds from sales of property and equipment	9,013	8,787
Cash used for investing activities	(315,750)	(270,859)
Cash flows from financing activities:		
Net change in deposits	318,318	401,350
Repayment of debt	(2,660)	(2,329)
Net activity related to noncontrolling interests	(879)	(768)
Excess tax benefits from share-based compensation	—	3,137
Net payments in connection with share-based compensation plans	(2,167)	(3,052)
Purchase of Company shares	—	(454)
Cash dividends	(75,099)	(56,897)
Cash provided by financing activities	237,513	340,987
Effect of exchange rate changes on cash	4,259	(2,021)
Net increase in cash and cash equivalents	160,626	214,493
Cash and cash equivalents—Beginning of period	1,006,138	1,027,321
Cash and cash equivalents—End of period	$ 1,166,764	$ 1,241,814
Supplemental information:		
Cash paid (received) during the period for:		
Interest	$ 16,811	$ 14,537
Premium taxes	$ 41,652	$ 40,340
Income taxes	$ 35,208	$ 67,261
Income tax refunds	$ (51,904)	$ (699)

See notes to condensed consolidated financial statements.

Note 1 – Basis of Condensed Consolidated Financial Statements

Basis of Presentation

The condensed consolidated financial information included in this report has been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and Article 10 of Securities and Exchange Commission (“SEC”) Regulation S-X. The principles for condensed interim financial information do not require the inclusion of all the information and footnotes required by GAAP for complete financial statements. Therefore, these financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2016. The condensed consolidated financial statements included herein are unaudited; however, in the opinion of management, they contain all normal recurring adjustments necessary for a fair statement of the consolidated results for the interim periods. All material intercompany transactions and balances have been eliminated upon consolidation.

Recently Adopted Accounting Pronouncements

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

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

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

Pending Accounting Pronouncements

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

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

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

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

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

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

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

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

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

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

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

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

Note 2 – Escrow Deposits, Like-kind Exchange Deposits and Trust Assets

The Company administers escrow deposits and trust assets as a service to its customers. Escrow deposits totaled $7.5 billion and $6.8 billion at June 30, 2017 and December 31, 2016, respectively, of which $3.0 billion and $2.6 billion, respectively, were held at the Company's federal savings bank subsidiary, First American Trust, FSB. The escrow deposits held at First American Trust, FSB are temporarily invested in cash and cash equivalents and debt securities, with offsetting liabilities included in deposits in the accompanying condensed consolidated balance sheets. The remaining escrow deposits were held at third-party financial institutions.

Trust assets held or managed by First American Trust, FSB totaled $3.4 billion and $3.2 billion at June 30, 2017 and December 31, 2016, respectively. Escrow deposits held at third-party financial institutions and trust assets are not considered assets of the Company and, therefore, are not included in the accompanying condensed consolidated balance sheets. However, the Company could be held contingently liable for the disposition of these assets.

In conducting its operations, the Company often holds customers' assets in escrow, pending completion of real estate transactions and, as a result, the Company has ongoing programs for realizing economic benefits with various financial institutions. The results from these programs are included in the condensed consolidated financial statements as income or a reduction in expense, as appropriate, based on the nature of the arrangement and benefit received.

The Company facilitates tax-deferred property exchang es for customers pursuant to Section 1031 of the Internal Revenue Code and tax-deferred reverse exchanges pursuant to Revenue Procedure 2000-37. As a facilitator and intermediary, the Company holds the proceeds from sales transactions and takes temporary t itle to property identified by the customer to be acquired with such proceeds. Upon the completion of each such exchange, the identified property is transferred to the customer or, if the exchange does not take place, an amount equal to the sales proceeds or, in the case of a reverse exchange, title to the property held by the Company is transferred to the customer. Like-kind exchange fun ds held by the Company totaled $ 2.5 billion and $2.0 billion at June 30, 2017 and December 31, 2016 , respectively. The li ke-kind exchange deposits are held at third-party financial institutions and, due to the structure utilized to facilitate these transactions, the proceeds and property are not considered assets of the Company and, therefore, are not included in the accompa nying condensed consolidated balance sheets. All such amounts are placed in deposit accounts insured, up to applicable limits, by the Federal Deposit Insurance Corporation. The Company could be held contingently liable to the customer for the transfers of property, disbursements of proceeds and the returns on such proceeds.

Note 3 – Debt and Equity Securities

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

	Amortized	Gross unrealized		Estimated
(in thousands)	**cost**	**Gains**	**Losses**	**fair value**
June 30, 2017				
U.S. Treasury bonds	$ 167,770	$ 1,589	$ (1,484)	$ 167,875
Municipal bonds	1,084,377	12,939	(13,485)	1,083,831
Foreign government bonds	145,453	554	(1,191)	144,816
Governmental agency bonds	218,798	1,136	(2,816)	217,118
Governmental agency mortgage-backed securities	2,283,883	4,306	(19,377)	2,268,812
U.S. corporate debt securities	711,796	12,374	(2,731)	721,439
Foreign corporate debt securities	241,125	4,908	(329)	245,704
	$ 4,853,202	$ 37,806	$ (41,413)	$ 4,849,595
December 31, 2016				
U.S. Treasury bonds	$ 155,441	$ 416	$ (4,466)	$ 151,391
Municipal bonds	1,004,659	6,340	(26,666)	984,333
Foreign government bonds	141,887	600	(2,439)	140,048
Governmental agency bonds	197,343	691	(4,166)	193,868
Governmental agency mortgage-backed securities	2,187,482	2,983	(26,792)	2,163,673
U.S. corporate debt securities	675,683	8,282	(5,441)	678,524
Foreign corporate debt securities	240,526	2,490	(1,490)	241,526
	$ 4,603,021	$ 21,802	$ (71,460)	$ 4,553,363

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

		Gross unrealized		Estimated
(in thousands)	**Cost**	**Gains**	**Losses**	**fair value**
June 30, 2017				
Preferred stocks	$ 18,747	$ 126	$ (1,334)	$ 17,539
Common stocks	376,960	34,224	(1,935)	409,249
	$ 395,707	$ 34,350	$ (3,269)	$ 426,788
December 31, 2016				
Preferred stocks	$ 18,926	$ —	$ (3,344)	$ 15,582
Common stocks	367,169	26,034	(4,700)	388,503
	$ 386,095	$ 26,034	$ (8,044)	$ 404,085

Sales of debt and equity securities resulted in realized gains of $ 16.7 million and $12.2 million , and realized losses of $ 1.9 million and $4.6 million for the three months ended June 30, 2017 and 2016, respectively, and realized gains of $ 20.1 million and $13.2 million , and realized losses of $ 5.2 million and $7.0 million for the six months ended June 30, 2017 and 2016, respectively.

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

	Less than 12 months		12 months or longer		Total	
(in thousands)	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses
June 30, 2017						
Debt securities:						
U.S. Treasury bonds	$ 103,246	$ (1,455)	$ 186	$ (29)	$ 103,432	$ (1,484)
Municipal bonds	417,676	(12,676)	21,707	(809)	439,383	(13,485)
Foreign government bonds	94,332	(1,149)	350	(42)	94,682	(1,191)
Governmental agency bonds	154,574	(2,337)	5,353	(479)	159,927	(2,816)
Governmental agency mortgage-backed securities	977,367	(11,731)	649,022	(7,646)	1,626,389	(19,377)
U.S. corporate debt securities	160,663	(2,179)	15,406	(552)	176,069	(2,731)
Foreign corporate debt securities	42,068	(271)	1,440	(58)	43,508	(329)
Total debt securities	1,949,926	(31,798)	693,464	(9,615)	2,643,390	(41,413)
Equity securities	70,904	(1,451)	23,259	(1,818)	94,163	(3,269)
Total	$ 2,020,830	$ (33,249)	$ 716,723	$ (11,433)	$ 2,737,553	$ (44,682)
December 31, 2016						
Debt securities:						
U.S. Treasury bonds	$ 111,748	$ (4,466)	$ —	$ —	$ 111,748	$ (4,466)
Municipal bonds	635,531	(26,317)	16,485	(349)	652,016	(26,666)
Foreign government bonds	63,044	(2,371)	324	(68)	63,368	(2,439)
Governmental agency bonds	148,112	(4,166)	—	—	148,112	(4,166)
Governmental agency mortgage-backed securities	1,295,790	(19,097)	432,349	(7,695)	1,728,139	(26,792)
U.S. corporate debt securities	193,533	(4,560)	24,499	(881)	218,032	(5,441)
Foreign corporate debt securities	78,658	(1,150)	8,154	(340)	86,812	(1,490)
Total debt securities	2,526,416	(62,127)	481,811	(9,333)	3,008,227	(71,460)
Equity securities	70,261	(1,173)	59,019	(6,871)	129,280	(8,044)
Total	$ 2,596,677	$ (63,300)	$ 540,830	$ (16,204)	$ 3,137,507	$ (79,504)

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

(in thousands)	Due in one year or less	Due after one through five years	Due after five through ten years	Due after ten years	Total
U.S. Treasury bonds					
Amortized cost	$ 52,472	$ 41,859	$ 29,565	$ 43,874	$ 167,770
Estimated fair value	$ 52,418	$ 41,715	$ 29,570	$ 44,172	$ 167,875
Municipal bonds					
Amortized cost	$ 58,674	$ 323,768	$ 251,017	$ 450,918	$ 1,084,377
Estimated fair value	$ 58,781	$ 326,946	$ 254,934	$ 443,170	$ 1,083,831
Foreign government bonds					
Amortized cost	$ 7,505	$ 112,018	$ 9,665	$ 16,265	$ 145,453
Estimated fair value	$ 7,536	$ 111,903	$ 9,727	$ 15,650	$ 144,816
Governmental agency bonds					
Amortized cost	$ 14,774	$ 107,546	$ 56,645	$ 39,833	$ 218,798
Estimated fair value	$ 14,756	$ 106,804	$ 56,114	$ 39,444	$ 217,118
U.S. corporate debt securities					
Amortized cost	$ 33,138	$ 295,993	$ 313,191	$ 69,474	$ 711,796
Estimated fair value	$ 33,271	$ 299,004	$ 317,260	$ 71,904	$ 721,439
Foreign corporate debt securities					
Amortized cost	$ 15,365	$ 114,751	$ 97,438	$ 13,571	$ 241,125
Estimated fair value	$ 15,389	$ 115,942	$ 99,750	$ 14,623	$ 245,704
Total debt securities excluding mortgage-backed securities					
Amortized cost	$ 181,928	$ 995,935	$ 757,521	$ 633,935	$ 2,569,319
Estimated fair value	$ 182,151	$ 1,002,314	$ 767,355	$ 628,963	$ 2,580,783
Total mortgage-backed securities					
Amortized cost					$ 2,283,883
Estimated fair value					$ 2,268,812
Total debt securities					
Amortized cost					$ 4,853,202
Estimated fair value					$ 4,849,595

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

T he composition of the investment portfolio at June 30, 2017 , by credit rating, is as follows:

	A- or higher		BBB+ to BBB-		Non-Investment Grade		Total	
(in thousands, except percentages)	Estimated fair value	Percentage	Estimated fair value	Percentage	Estimated fair value	Percentage	Estimated fair value	Percentage
June 30, 2017								
Debt securities:								
U.S. Treasury bonds	$ 167,875	100.0	$ —	—	$ —	—	$ 167,875	100.0
Municipal bonds	1,018,239	94.0	52,490	4.8	13,102	1.2	1,083,831	100.0
Foreign government bonds	117,374	81.1	21,793	15.0	5,649	3.9	144,816	100.0
Governmental agency bonds	217,118	100.0	—	—	—	—	217,118	100.0
Governmental agency mortgage-backed securities	2,268,812	100.0	—	—	—	—	2,268,812	100.0
U.S. corporate debt securities	251,870	35.0	246,312	34.1	223,257	30.9	721,439	100.0
Foreign corporate debt securities	119,872	48.7	93,015	37.9	32,817	13.4	245,704	100.0
Total debt securities	4,161,160	85.8	413,610	8.5	274,825	5.7	4,849,595	100.0
Preferred stocks	—	—	11,544	65.8	5,995	34.2	17,539	100.0
Total	$ 4,161,160	85.5	$ 425,154	8.7	$ 280,820	5.8	$ 4,867,134	100.0

As of June 30, 2017, the estimated fair value of total debt securities included $146.0 million of bank loans, of which $133.9 million was non-investment grade; $118.5 million of high yield corporate debt securities, all of which was non-investment grade; and $72.4 million of emerging market debt securities, of which $9.3 million was non-investment grade.

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

	A- or higher		BBB+ to BBB-		Non-Investment Grade		Total	
(in thousands, except percentages)	Estimated fair value	Percentage	Estimated fair value	Percentage	Estimated fair value	Percentage	Estimated fair value	Percentage
June 30, 2017								
Debt securities:								
U.S. Treasury bonds	$ 103,432	100.0	$ —	—	$ —	—	$ 103,432	100.0
Municipal bonds	410,099	93.4	24,728	5.6	4,556	1.0	439,383	100.0
Foreign government bonds	70,980	74.9	18,323	19.4	5,379	5.7	94,682	100.0
Governmental agency bonds	159,927	100.0	—	—	—	—	159,927	100.0
Governmental agency mortgage-backed securities	1,626,389	100.0	—	—	—	—	1,626,389	100.0
U.S. corporate debt securities	61,000	34.6	71,104	40.4	43,965	25.0	176,069	100.0
Foreign corporate debt securities	22,605	52.0	16,097	37.0	4,806	11.0	43,508	100.0
Total debt securities	2,454,432	92.9	130,252	4.9	58,706	2.2	2,643,390	100.0
Preferred stocks	—	—	8,070	60.9	5,189	39.1	13,259	100.0
Total	$ 2,454,432	92.4	$ 138,322	5.2	$ 63,895	2.4	$ 2,656,649	100.0

As of June 30, 2017, the estimated fair value of total debt securities in an unrealized loss position included $31.6 million of bank loans, of which $30.5 million was non-investment grade; $15.9 million of high yield corporate debt securities, all of which was non-investment grade; and $28.4 million of emerging market debt securities, of which $7.8 million was non-investment grade.

The credit ratings in the above tables reflect published ratings obtained from Standard & Poor’s Rating Services, DBRS, Inc., Fitch Ratings, Inc. and Moody’s Investor Services, Inc. If a security was rated differently among the rating agencies, the lowest rating was selected. Governmental agency mortgage-backed securities are not rated by any of the ratings agencies; however, these securities have been included in the above table in the “A- or higher” category because the payments of principal and interest are guaranteed by the governmental agency that issued the security.

Note 4 – Goodwill

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

(in thousands)	Title Insurance and Services	Specialty Insurance	Total
Balance as of December 31, 2016	$ 970,652	$ 46,765	$ 1,017,417
Acquisitions	12,633	—	12,633
Foreign currency translation	2,191	—	2,191
Other adjustments	(298)	—	(298)
Balance as of June 30, 2017	$ 985,178	$ 46,765	$ 1,031,943

The Company's four reporting units for purposes of assessing goodwill for impairment are title insurance, home warranty, property and casualty insurance and trust and other services. During the six months ended June 30, 2017 there were no triggering events that would require an impairment analysis.

Note 5 – Other Intangible Assets

Other intangible assets consist of the following:

(in thousands)	June 30, 2017	December 31, 2016
Finite-lived intangible assets:		
Customer relationships	$ 77,070	$ 78,542
Noncompete agreements	9,994	10,007
Trademarks	7,189	6,472
Internal-use software licenses	26,692	16,038
Patents	2,840	2,840
	123,785	113,899
Accumulated amortization	(62,861)	(51,885)
	60,924	62,014
Indefinite-lived intangible assets:		
Licenses	16,884	16,884
	$ 77,808	$ 78,898

Amortization expense for finite-lived intangible assets was $6.5 million and $12.7 million for the three and six months ended June 30, 2017, respectively, and $3.2 million and $5.6 million for the three and six months ended June 30, 2016, respectively.

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

Year	(in thousands)
Remainder of 2017	$ 14,288
2018	$ 13,239
2019	$ 8,617
2020	$ 4,864
2021	$ 2,976
2022	$ 2,380

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

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

	Six months ended June 30,	
(in thousands)	**2017**	**2016**
Balance at beginning of period	$ 1,025,863	$ 983,880
Provision related to:		
Current year	209,082	216,425
Prior years	4,264	13,033
	213,346	229,458
Payments, net of recoveries, related to:		
Current year	91,915	84,495
Prior years	133,934	141,073
	225,849	225,568
Other	3,872	6,994
Balance at end of period	$ 1,017,232	$ 994,764

The provision for title insurance losses, expressed as a percentage of title insurance premiums and escrow fees, was 4.0% for the three and six months ended June 30, 2017 compared to 5.5% for the three and six months ended June 30, 2016. The current quarter rate of 4.0% reflects the ultimate loss rate for the current policy year and no change in the loss reserve estimates for prior policy years. The second quarter of 2016 rate of 5.5% reflected the ultimate loss rate of 5.0% for the 2016 policy year and a $5.2 million net increase in the loss reserve estimates for prior policy years.

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

(in thousands, except percentages)	**June 30, 2017**		**December 31, 2016**	
Known title claims	$ 75,678	7.4%	$ 83,805	8.1%
Incurred but not reported claims	883,508	86.9%	888,126	86.6%
Total title claims	959,186	94.3%	971,931	94.7%
Non-title claims	58,046	5.7%	53,932	5.3%
Total loss reserves	$ 1,017,232	100.0%	$ 1,025,863	100.0%

Note 7 – Income Taxes

The Company's effective income tax rates (income tax expense as a percentage of income before income taxes) were 33.8% and 32.9% for the three and six months ended June 30, 2017, respectively, and 33.3% and 32.3% for the three and six months ended June 30, 2016, respectively. The Company's effective tax rates differ from the statutory federal rate of 35% primarily due to changes in state and foreign income taxes resulting from fluctuations in the Company's noninsurance and foreign subsidiaries' contributions to pretax income and changes in the ratio of permanent differences to income before income taxes. The Company's effective tax rate for 2017 also reflects the adoption of new accounting guidance related to the accounting for share-based payment transactions, which requires, among other items, that all excess tax benefits and tax deficiencies associated with share-based payment transactions be recorded in income tax expense rather than in additional paid-in capital, as previously required. The impact to the Company of adopting this guidance was a reduction in income tax expense of $0.3 million and $2.7 million for the three and six months ended June 30, 2017, respectively. See Note 1 Basis of Condensed Consolidated Financial Statements for further discussion of the new guidance. The Company's effective tax rate for 2016 reflects the resolution of certain tax authority examinations and tax credits claimed in 2016 and in prior years.

In connection with the Company's June 2010 spin-off from its prior parent , which subsequently assumed the name CoreLogic, Inc. ("CoreLogic"), it entered into a tax sharing agreement which governs the Company's and CoreLogic's respective rights, responsibilities and obligations for certain tax related matters. At June 30, 2017 a nd December 31, 2016 , the Company had a net payable to CoreLogic of $ 12.9 million and $16.3 million, respectively, related to tax matters prior to the spin-off. This amount is included in the Company's condensed consolidated balance sheets in accounts payable and accrued liabilities. The decrease during the current year was primarily due to payme nts made for tax matters prior to the spin-off .

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

As of June 30, 2017 and December 31, 2016, the liability for income taxes associated with uncertain tax positions was $18.5 million and $18.1 million, respectively. The net increase in the liability during 2017 was primarily attributable to reserves for tax positions taken by the Company. As of June 30, 2017 and December 31, 2016, the liability could be reduced by $5.7 million due to offsetting tax benefits associated with the correlative effects of potential adjustments, including timing adjustments and state income taxes. The net amounts of $12.8 million and $12.4 million as of June 30, 2017 and December 31, 2016, respectively, if recognized, would favorably affect the Company's effective tax rate.

The Company's continuing practice is to recognize interest and penalties, if any, related to uncertain tax positions in income tax expense. As of June 30, 2017 and December 31, 2016, the Company had accrued $4.3 million and $4.1 million, respectively, of interest and penalties (net of tax benefits of $2.0 million and $1.8 million, respectively) related to uncertain tax positions.

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

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

Note 8 – Earnings Per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except per share amounts)	**2017**	**2016**	**2017**	**2016**
Numerator				
Net income attributable to the Company	$ 122,257	$ 102,149	$ 180,539	$ 154,650
Denominator				
Basic weighted-average shares	111,549	110,480	111,374	110,327
Effect of dilutive employee stock options and restricted stock units (“RSUs”)	650	498	652	515
Diluted weighted-average shares	112,199	110,978	112,026	110,842
Net income per share attributable to the Company’s stockholders				
Basic	$ 1.10	$ 0.92	$ 1.62	$ 1.40
Diluted	$ 1.09	$ 0.92	$ 1.61	$ 1.40

For the three and six months ended June 30, 2017 and 2016, 2 thousand RSUs and 1 thousand RSUs, respectively, were excluded from weighted-average diluted common shares outstanding due to their antidilutive effect.

Note 9 – Employee Benefit Plans

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	**2017**	**2016**	**2017**	**2016**
Expense:				
Service costs	$ 183	$ 260	$ 367	$ 521
Interest costs	4,458	6,037	9,099	12,001
Expected return on plan assets	(2,370)	(3,073)	(4,740)	(6,167)
Amortization of net actuarial loss	6,902	7,073	13,834	14,110
Amortization of prior service credit	(1,012)	(1,211)	(2,223)	(2,422)
	$ 8,161	$ 9,086	$ 16,337	$ 18,043

Pension termination and settlement

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

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

The Company made cash contributions of $34.0 million in March 2017 to fully fund its pension obligation . In July 2017, t he Company completed the transfer of all remaining benefit obligations related to the pension plans to a hi ghly rated insurance company. As a result, the Company will recognize approximately $15 3 million of pension expense in the condensed consolidated statements of income in the third quarter of 2017 .

Note 10 – Fair Value Measurements

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

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

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

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

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

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

Assets measured at fair value on a recurring basis

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

Debt securities

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

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

Equity securities

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

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

(in thousands)	Total	Level 1	Level 2	Level 3
June 30, 2017				
Assets:				
Debt securities:				
U.S. Treasury bonds	$ 167,875	$ —	$ 167,875	$ —
Municipal bonds	1,083,831	—	1,083,831	—
Foreign government bonds	144,816	—	144,816	—
Governmental agency bonds	217,118	—	217,118	—
Governmental agency mortgage-backed securities	2,268,812	—	2,268,812	—
U.S. corporate debt securities	721,439	—	703,311	18,128
Foreign corporate debt securities	245,704	—	243,789	1,915
	4,849,595	—	4,829,552	20,043
Equity securities:				
Preferred stocks	17,539	17,539	—	—
Common stocks	409,249	409,249	—	—
	426,788	426,788	—	—
Total assets	$ 5,276,383	$ 426,788	$ 4,829,552	$ 20,043

(in thousands)	Total	Level 1	Level 2	Level 3
December 31, 2016				
Assets:				
Debt securities:				
U.S. Treasury bonds	$ 151,391	$ —	$ 151,391	$ —
Municipal bonds	984,333	—	984,333	—
Foreign government bonds	140,048	—	140,048	—
Governmental agency bonds	193,868	—	193,868	—
Governmental agency mortgage-backed securities	2,163,673	—	2,163,673	—
U.S. corporate debt securities	678,524	—	631,859	46,665
Foreign corporate debt securities	241,526	—	235,258	6,268
	4,553,363	—	4,500,430	52,933
Equity securities:				
Preferred stocks	15,582	15,582	—	—
Common stocks	388,503	388,503	—	—
	404,085	404,085	—	—
Total assets	$ 4,957,448	$ 404,085	$ 4,500,430	$ 52,933

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

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

	June 30, 2017			June 30, 2016		
(in thousands)	U.S. corporate debt securities	Foreign corporate debt securities	Total	U.S. corporate debt securities	Foreign corporate debt securities	Total
Fair value at beginning of period	$ 13,434	$ 2,862	$ 16,296	$ 14,993	$ 1,332	$ 16,325
Transfers into Level 3	4,658	—	4,658	2,948	—	2,948
Transfers out of Level 3	(1,235)	(525)	(1,760)	(5,840)	(762)	(6,602)
Net realized and unrealized gains (losses):						
Included in earnings	15	3	18	(36)	—	(36)
Included in other comprehensive income (loss)	(92)	(5)	(97)	179	55	234
Purchases	4,521	—	4,521	4,640	100	4,740
Sales	(404)	(156)	(560)	(1,446)	—	(1,446)
Settlements	(2,769)	(264)	(3,033)	(945)	(2)	(947)
Fair value at end of period	$ 18,128	$ 1,915	$ 20,043	$ 14,493	$ 723	$ 15,216

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

	June 30, 2017			June 30, 2016		
(in thousands)	U.S. corporate debt securities	Foreign corporate debt securities	Total	U.S. corporate debt securities	Foreign corporate debt securities	Total
Fair value at beginning of period	$ 46,665	$ 6,268	$ 52,933	$ 43,567	$ 6,572	$ 50,139
Transfers into Level 3	300	—	300	857	—	857
Transfers out of Level 3	(26,543)	(2,569)	(29,112)	(33,372)	(3,773)	(37,145)
Net realized and unrealized gains (losses):						
Included in earnings	91	8	99	(111)	(35)	(146)
Included in other comprehensive income (loss)	(380)	(49)	(429)	667	(9)	658
Purchases	9,262	551	9,813	7,993	100	8,093
Sales	(2,383)	(769)	(3,152)	(3,473)	(1,049)	(4,522)
Settlements	(8,884)	(1,525)	(10,409)	(1,635)	(1,083)	(2,718)
Fair value at end of period	$ 18,128	$ 1,915	$ 20,043	$ 14,493	$ 723	$ 15,216

Financial instruments not measured at fair value

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

Cash and cash equivalents

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

Deposits with bank s

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

Notes receivable, net

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

Deposits

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

Notes and contracts payable

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

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

	Carrying	Estimated fair value			
(in thousands)	**Amount**	**Total**	**Level 1**	**Level 2**	**Level 3**
June 30, 2017					
Assets:					
Cash and cash equivalents	$ 1,166,764	$ 1,166,764	$ 1,166,764	$ —	$ —
Deposits with banks	$ 21,762	$ 21,715	$ 255	$ 21,460	$ —
Notes receivable, net	$ 7,890	$ 7,745	$ —	$ —	$ 7,745
Liabilities:					
Deposits	$ 3,097,796	$ 3,097,796	$ 3,097,796	$ —	$ —
Notes and contracts payable	$ 734,455	$ 754,104	$ —	$ 749,923	$ 4,181

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

Note 11 – Share-Based Compensation

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	**2017**	**2016**	**2017**	**2016**
Expense:				
RSUs	$ 6,754	$ 5,384	$ 22,769	$ 20,365
Stock options	67	68	134	135
Employee stock purchase plan	726	658	1,677	1,468
	$ 7,547	$ 6,110	$ 24,580	$ 21,968

The following table summarizes RSU activity for the six months ended June 30, 2017:

(in thousands, except weighted-average grant-date fair value)	**Shares**	**Weighted-average grant-date fair value**
RSUs unvested at December 31, 2016	1,510	$ 33.38
Granted during 2017	868	$ 39.29
Vested during 2017	(834)	$ 34.22
Forfeited during 2017	(5)	$ 32.78
RSUs unvested at June 30, 2017	1,539	$ 36.26

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

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

(in thousands)	**Unrealized gains (losses) on securities**	**Foreign currency translation adjustment**	**Pension benefit adjustment**	**Accumulated other comprehensive income (loss)**
Balance at December 31, 2016	$ (26,760)	$ (63,576)	$ (140,057)	$ (230,393)
Change in unrealized gains (losses) on securities	59,140	—	—	59,140
Change in foreign currency translation adjustment	—	12,143	—	12,143
Amortization of net actuarial loss	—	—	13,834	13,834
Amortization of prior service credit	—	—	(2,223)	(2,223)
Tax effect	(21,055)	—	(4,441)	(25,496)
Balance at June 30, 2017	$ 11,325	$ (51,433)	$ (132,887)	$ (172,995)
Allocated to the Company	$ 11,311	$ (51,433)	$ (132,887)	$ (173,009)
Allocated to noncontrolling interests	14	—	—	14
Balance at June 30, 2017	$ 11,325	$ (51,433)	$ (132,887)	$ (172,995)

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

(in thousands)	Unrealized gains (losses) on securities	Foreign currency translation adjustment	Pension benefit adjustment	Total other comprehensive income (loss)
Three Months Ended June 30, 2017				
Pretax change before reclassifications	$ 34,237	$ 8,709	$ —	$ 42,946
Reclassifications out of AOCI	(14,729)	—	5,890	(8,839)
Tax effect	(6,874)	—	(2,253)	(9,127)
Total other comprehensive income (loss), net of tax	$ 12,634	$ 8,709	$ 3,637	$ 24,980
Three Months Ended June 30, 2016				
Pretax change before reclassifications	$ 34,987	$ (5,579)	$ —	$ 29,408
Reclassifications out of AOCI	(7,242)	—	5,862	(1,380)
Tax effect	(10,064)	—	(2,241)	(12,305)
Total other comprehensive income (loss), net of tax	$ 17,681	$ (5,579)	$ 3,621	$ 15,723

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

(in thousands)	Unrealized gains (losses) on securities	Foreign currency translation adjustment	Pension benefit adjustment	Total other comprehensive income (loss)
Six Months Ended June 30, 2017				
Pretax change before reclassifications	$ 72,930	$ 12,143	$ —	$ 85,073
Reclassifications out of AOCI	(13,790)	—	11,611	(2,179)
Tax effect	(21,055)	—	(4,441)	(25,496)
Total other comprehensive income (loss), net of tax	$ 38,085	$ 12,143	$ 7,170	$ 57,398
Six Months Ended June 30, 2016				
Pretax change before reclassifications	$ 84,781	$ 6,525	$ —	$ 91,306
Reclassifications out of AOCI	(5,143)	—	11,688	6,545
Tax effect	(30,130)	—	(4,471)	(34,601)
Total other comprehensive income (loss), net of tax	$ 49,508	$ 6,525	$ 7,217	$ 63,250

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

	Amounts reclassified from AOCI				
	Three Months Ended June 30,		**Six Months Ended June 30,**		**Affected line items in the condensed**
(in thousands)	**2017**	**2016**	**2017**	**2016**	**consolidated statements of income**
Unrealized gains (losses) on securities:					
Net realized gains on sales of securities	$ 14,729	$ 7,242	$ 13,790	$ 5,628	Net realized investment gains
Net other-than-temporary impairment losses	—	—	—	(485)	Net realized investment gains
Pretax total	$ 14,729	$ 7,242	$ 13,790	$ 5,143	
Tax effect	$ (5,244)	$ (2,740)	$ (5,274)	$ (1,967)	
Pension benefit adjustment:					
Amortization of net actuarial loss	$ (6,902)	$ (7,073)	$ (13,834)	$ (14,110)	(1)
Amortization of prior service credit	1,012	1,211	2,223	2,422	(1)
Pretax total	$ (5,890)	$ (5,862)	$ (11,611)	$ (11,688)	
Tax effect	$ 2,253	$ 2,241	$ 4,441	$ 4,471	

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

Note 13 – Litigation and Regulatory Contingencies

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

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

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

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

Most of the non-ordinary course lawsuits to which the Company and its subsidiaries are parties challenge practices in the Company's title insurance business, though a limited number of cases also pertain to the Company's other businesses. These lawsuits include, among others, cases alleging, among other assertions, that the Company, one of its subsidiaries and/or one of its agents:

- charged an improper rate for title insurance in a refinance transaction, including
  - Lewis v. First American Title Insurance Company, filed on November 28, 2006 and pending in the United States District Court for the District of Idaho.

  A court has granted class certification in Lewis. For the reasons stated above, the Company has been unable to assess the probability of loss or estimate the possible loss or the range of loss.
- misclassified certain employees, including
  - Cruz v. First American Financial Corporation, et al., filed on November 25, 2015 and pending in the Superior Court of the State of California, County of Orange,
  - Sager v. Interthinx, Inc., filed on January 23, 2015 and pending in the Superior Court of the State of California, County of Los Angeles, and
  - Weber v. Interthinx, Inc., et al., filed on April 17, 2015 and pending in the United States District Court for the Eastern District of Missouri.

  These lawsuits are putative class actions for which a class has not been certified. For the reasons described above, as well as the applicability of certain indemnification rights the Company may have, the Company has not yet been able to assess the probability of loss or estimate the possible loss or the range of loss or, where the Company has been able to make an estimate, the Company believes the amount is not material to the condensed consolidated financial statements as a whole.
- overcharged or improperly charged fees for products and services, conspired to fix prices, participated in the conveyance of illusory property interests, denied home warranty claims, improperly handled property and casualty claims, and gave items of value to brokers and others as inducements to refer business in violation of certain laws, such as consumer protection laws and laws generally prohibiting unfair business practices, and certain obligations, including
  - Chavez v. First American Specialty Insurance Company, filed on June 29, 2017 and pending in the Superior Court of the State of California, County of Los Angeles,
  - Downing v. First American Title Insurance Company, et al., filed on July 26, 2016 and pending in the United States District Court for the Northern District of Georgia,
  - Kaufman v. First American Financial Corporation, et al., filed on December 21, 2007 and pending in the Superior Court of the State of California, County of Los Angeles,
  - Kirk v. First American Financial Corporation, et al., filed on June 15, 2006 and pending in the Superior Court of the State of California, County of Los Angeles,
  - Lennen v. First American Financial Corporation, et al., filed on May 19, 2016 and pending in the United States District court for the Middle District of Florida,

- McCormick v. First American Real Estate Services, Inc., et al., filed on December 31, 2015 and pending i n the Superior Court of the State of California, County of Orange,
- Sjobring v. First American Financial Corporation, et al., filed on February 25, 2005 and pending in the Superior Court of the State of California, County of Los Angeles,
- Tenefufu vs. First American Specialty Insurance Company, filed on June 1, 2017, pending in the Superior Court of the State of California, County of Sacramento,
- Wilmot v. First American Financial Corporation, et al., filed on April 20, 2007 and pending in the Superior Court of the State of California, County of Los Angeles, and
- In re First American Home Buyers Protection Corporation, consolidated on October 9, 2014 and pending in the United States District Court for the Southern District of California.

All of these lawsuits, except Kaufman, Kirk and Sjobring, are putative class actions for which a class has not been certified. In Kaufman a class was certified but that certification was subsequently vacated. A trial of the Kirk matter has concluded and the judgment has been affirmed on appeal. For the reasons described above, the Company has not yet been able to assess the probability of loss or estimate the possible loss or the range of loss or, where the Company has been able to make an estimate, the Company believes the amount is not material to the condensed consolidated financial statements as a whole.

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

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

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

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

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

Note 14 – Segment Information

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

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

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

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

For the three months ended June 30, 2017:

(in thousands)	Revenues	Income (loss) before income taxes	Depreciation and amortization	Capital expenditures
Title Insurance and Services	$ 1,336,910	$ 197,305	$ 28,557	$ 35,916
Specialty Insurance	115,162	9,560	1,547	2,609
Corporate	2,646	(22,711)	41	—
Eliminations	(289)	—	—	—
	$ 1,454,429	$ 184,154	$ 30,145	$ 38,525

For the three months ended June 30, 2016:

(in thousands)	Revenues	Income (loss) before income taxes	Depreciation and amortization	Capital expenditures
Title Insurance and Services	$ 1,255,922	$ 172,437	$ 22,439	$ 29,696
Specialty Insurance	104,424	4,718	1,459	1,468
Corporate	1,202	(23,548)	96	—
Eliminations	(15)	—	—	—
	$ 1,361,533	$ 153,607	$ 23,994	$ 31,164

For the six months ended June 30, 2017:

(in thousands)	Revenues	Income (loss) before income taxes	Depreciation and amortization	Capital expenditures
Title Insurance and Services	$ 2,539,857	$ 295,548	$ 57,108	$ 66,309
Specialty Insurance	225,427	19,601	3,098	3,782
Corporate	6,764	(47,115)	86	—
Eliminations	(576)	—	—	—
	$ 2,771,472	$ 268,034	$ 60,292	$ 70,091

F or the six months ended June 30, 2016:

(in thousands)	Revenues	Income (loss) before income taxes	Depreciation and amortization	Capital expenditures
Title Insurance and Services	$ 2,354,391	$ 260,111	$ 43,515	$ 57,939
Specialty Insurance	207,465	16,962	2,707	3,083
Corporate	1,410	(47,874)	192	—
Eliminations	(21)	—	—	—
	$ 2,563,245	$ 229,199	$ 46,414	$ 61,022

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

THIS QUARTERLY REPORT ON FORM 10-Q CONTAINS FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED, AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. THESE FORWARD-LOOKING STATEMENTS CAN BE IDENTIFIED BY THE FACT THAT THEY DO NOT RELATE STRICTLY TO HISTORICAL OR CURRENT FACTS AND MAY CONTAIN THE WORDS "BELIEVE," "ANTICIPATE," "EXPECT," "INTEND," "PLAN," "PREDICT," "ESTIMATE," "PROJECT," "WILL BE," "WILL CONTINUE," "WILL LIKELY RESULT," OR OTHER SIMILAR WORDS AND PHRASES OR FUTURE OR CONDITIONAL VERBS SUCH AS "WILL," "MAY," "MIGHT," "SHOULD," "WOULD," OR "COULD." THESE FORWARD-LOOKING STATEMENTS INCLUDE, WITHOUT LIMITATION, STATEMENTS REGARDING FUTURE OPERATIONS, PERFORMANCE, FINANCIAL CONDITION, PROSPECTS, PLANS AND STRATEGIES. THESE FORWARD-LOOKING STATEMENTS ARE BASED ON CURRENT EXPECTATIONS AND ASSUMPTIONS THAT MAY PROVE TO BE INCORRECT.

RISKS AND UNCERTAINTIES EXIST THAT MAY CAUSE RESULTS TO DIFFER MATERIALLY FROM THOSE SET FORTH IN THESE FORWARD-LOOKING STATEMENTS. FACTORS THAT COULD CAUSE THE ANTICIPATED RESULTS TO DIFFER FROM THOSE DESCRIBED IN THE FORWARD-LOOKING STATEMENTS INCLUDE THE FACTORS SET FORTH ON PAGES 3-4 OF THIS QUARTERLY REPORT. THE FORWARD-LOOKING STATEMENTS SPEAK ONLY AS OF THE DATE THEY ARE MADE. THE COMPANY DOES NOT UNDERTAKE TO UPDATE FORWARD-LOOKING STATEMENTS TO REFLECT CIRCUMSTANCES OR EVENTS THAT OCCUR AFTER THE DATE THE FORWARD-LOOKING STATEMENTS ARE MADE.

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

CRITICAL ACCOUNTING ESTIMATES

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

Recently Adopted Accounting Pronouncements

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

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

In March 2016, the FASB issued updated guidance intended t o simplify the accounting treatment for investments that become qualified for the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence. The updated guidance is effective for interim and annual re porting periods beginning after December 15, 2016 . The adoption of this guidance had no impact on the Company's condensed consolidated financial statements.

Pending Accounting Pronouncements

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

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

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

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

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

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

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

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

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

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

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

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

Results of Operations

Summary of Second Quarter

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

The Company's total revenues increased $92.9 million, or 6.8%, in the second quarter of 2017 when compared with the second quarter of 2016. This increase was primarily attributable to an increase in agent premiums of $38.2 million, or 7.4%, an increase in information and other revenues of $19.1 million, or 10.4%, and an increase in direct premiums and escrow fees of $17.1 million, or 2.7%. The increase in information and other revenues was primarily attributable to acquisitions in the title insurance and services segment completed during 2016. Direct premiums and escrow fees in the title insurance and services segment from domestic residential purchase and commercial transactions increased $26.9 million and $11.4 million, or 11.8% and 6.8%, respectively, while direct premiums and escrow fees from domestic residential refinance transactions decreased $27.5 million, or 34.2%, in the second quarter of 2017 when compared to the second quarter of 2016. Direct premiums in the specialty insurance segment increased $7.7 million, or 7.7%, which was attributable to the home warranty business.

According to the Mortgage Bankers Association's July 20, 2017 Mortgage Finance Forecast (the "MBA Forecast"), residential mortgage originations in the United States (based on the total dollar value of the transactions) decreased 9.2% in the second quarter of 2017 when compared with the second quarter of 2016. According to the MBA Forecast, the dollar amount of purchase originations increased 14.9% and refinance originations decreased 37.4%. This volume of domestic residential mortgage origination activity in the second quarter of 2017 contributed to an 11.8% increase in direct premiums and escrow fees from domestic residential purchase transactions and a 34.2% decrease in direct premiums and escrow fees from domestic refinance transactions in the second quarter of 2017 when compared to the second quarter of 2016.

During the second quarter of 2017, the level of domestic title orders opened per day by the Company's direct title operations decreased by 13.9% when compared with the second quarter of 2016. Residential refinance open orders per day decreased by 38.0%, while purchase and commercial open orders per day increased by 1.8% and 0.9%, respectively. The sharp decline in residential refinance orders opened per day was attributable to the increase in mortgage interest rates in the second quarter of 2017 when compared to the second quarter of 2016.

In 2016, the Company terminated its funded defined benefit pension plans. In July 2017, the Company completed the transfer of all remaining benefit obligations related to the pension plans to a higly rated insurance company and will recognize approximately $153 million of pension expense in the corporate segment in the third quarter of 2017. The Company estimates an annual reduction of approximately $22 million in personnel costs related to the pension plans within the corporate segment, based on the level of these expenses for the year ended December 31, 2016. For further discussion of the pension termination see Note 9 Employee Benefit Plans to the condensed consolidated financial statements.

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

Title Ins urance and Services

	Three Months Ended June 30,				Six Months Ended June 30,			
(in thousands, except percentages)	2017	2016	$ Change	% Change	2017	2016	$ Change	% Change
Revenues								
Direct premiums and escrow fees	$ 532,236	$ 522,871	$ 9,365	1.8%	$ 954,195	$ 926,911	$ 27,284	2.9%
Agent premiums	554,028	515,792	38,236	7.4	1,128,610	1,028,037	100,573	9.8
Information and other	199,243	181,958	17,285	9.5	379,278	336,220	43,058	12.8
Net investment income	34,665	27,478	7,187	26.2	61,280	52,404	8,876	16.9
Net realized investment gains	16,738	7,823	8,915	114.0	16,494	10,819	5,675	52.5
	1,336,910	1,255,922	80,988	6.4	2,539,857	2,354,391	185,466	7.9
Expenses								
Personnel costs	415,592	389,799	25,793	6.6	800,428	744,879	55,549	7.5
Premiums retained by agents	435,771	403,669	32,102	8.0	889,697	808,708	80,989	10.0
Other operating expenses	199,705	195,495	4,210	2.2	382,976	360,993	21,983	6.1
Provision for policy losses and other claims	43,486	57,126	(13,640)	(23.9)	83,348	107,642	(24,294)	(22.6)
Depreciation and amortization	28,557	22,439	6,118	27.3	57,108	43,515	13,593	31.2
Premium taxes	15,253	14,246	1,007	7.1	29,102	27,187	1,915	7.0
Interest	1,241	711	530	74.5	1,650	1,356	294	21.7
	1,139,605	1,083,485	56,120	5.2	2,244,309	2,094,280	150,029	7.2
Income before income taxes	$ 197,305	$ 172,437	$ 24,868	14.4%	$ 295,548	$ 260,111	$ 35,437	13.6%
Margins	14.8%	13.7%	1.1%	8.0%	11.6%	11.0%	0.6%	5.5%

Direct premiums and escrow fees were $532.2 million and $954.2 million for the three and six months ended June 30, 2017, respectively, increases of $9.4 million, or 1.8%, and $27.3 million, or 2.9%, when compared with the respective periods of the prior year. The increases for the three and six months ended June 30, 2017 were primarily due to an increase in the average revenues per order closed, partially offset by a decrease in the domestic title orders closed. The average revenues per order closed were $2,294 and $2,172 for the three and six months ended June 30, 2017, respectively, increases of 16.3% and 10.9% when compared with $1,972 and $1,959 for the respective periods of the prior year. The increases in average revenues per order closed for the three and six months ended June 30, 2017 were primarily attributable to a shift in the mix of direct revenues generated from lower premium residential refinance products to higher premium residential purchase and commercial products, higher residential real estate values, and, to a lesser extent, premium and fee increases related to residential purchase transactions. The Company's direct title operations closed 213,900 and 405,200 title orders during the three and six months ended June 30, 2017, respectively, decreases of 12.4% and 7.3% when compared with 244,200 and 437,300 title orders closed during the respective periods of the prior year. Domestic refinance orders closed per day decreased by 36.3% and 26.5%, while domestic residential purchase orders closed per day increased by 3.1% and 3.5% for the three and six months ended June 30, 2017 when compared to the same periods of 2016.

Agent premiums were $554.0 million and $1.1 billion for the three and six months ended June 30, 2017, respectively, increases of $38.2 million, or 7.4%, and $100.6 million, or 9.8%, when compared with the respective periods of the prior year. Agent premiums are recorded when notice of issuance is received from the agent, which is generally when cash payment is received by the Company. As a result, there is generally a delay between the agent's issuance of a title policy and the Company's recognition of agent premiums. Therefore, current quarter agent premiums typically reflect prior quarter mortgage origination activity. The increase in agent premiums for the three months ended June 30, 2017 is generally consistent with the 4.4% increase in the Company's direct premiums and escrow fees in the first quarter of 2017 as compared with the first quarter of 2016.

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

Information and other revenues were $199.2 million and $379.3 million for the three and six months ended June 30, 2017, respectively, increases of $17.3 million, or 9.5%, and $43.1 million, or 12.8%, when compared with the respective periods of the prior year. The increa ses were driven by recent acquisitions. Excluding the $ 19.6 million and $ 44.6 million impact of new acquisitions for the three and six months ended June 30, 2017, respectively, information and other revenues decreased $ 2.3 million, or 1.3 %, and $ 1.5 milli on, or 0 .4 %, when compared with the respective periods of the prior year. The decreases in information and other revenues for the three an d six months ended June 30, 2017 , adjusted for the impact of acquisitions, were due to lower demand for the Company's de fault information products and lower valuation and other automated product revenue, partially offset by higher fees earned on non-insured products related to commercial transactions. The lower demand for the Company's default information products was attributable to lower loss mitigation activities and the lower valuation and other automated product revenue was attributable to lower mortgage origination volumes.

Net investment income totaled $34.7 million and $61.3 million for the three and six months ended June 30, 2017, respectively, increases of $7.2 million, or 26.2%, and $8.9 million, or 16.9%, when compared with the respective periods of the prior year. The increases were primarily attributable to the increase in short-term interest rates that drove higher interest income from balances held in connection with the tax-deferred property exchange business and the title insurance and services segment's debt securities portfolio. In addition, interest income from the debt securities portfolio was higher from a larger allocation to higher-yielding municipal bonds and an increase in average balances when compared to the same periods of the prior year.

Net realized investment gains totaled $16.7 million and $16.5 million for the three and six months ended June 30, 2017, respectively, and were primarily from the sales of equity securities and, to a lesser extent, a gain recognized from the redemption of preferred stock held by the Company. Net realized investment gains totaled $7.8 million and $10.8 million for the three and six months ended June 30, 2016, respectively, and were primarily from the sales of equity securities. Net realized investment gains for the six months ended June 30, 2016 also included gains from the sales of real estate and certain regional operations.

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

Personnel costs were $415.6 million and $800.4 million for the three and six months ended June 30, 2017, respectively, increases of $25.8 million, or 6.6%, and $55.5 million, or 7.5%, when compared with the respective periods of the prior year. The increases were primarily driven by recent acquisitions. Excluding the $13.8 million and $32.5 million impact of new acquisitions for the three and six months ended June 30, 2017, respectively, personnel costs increased $12.0 million, or 3.1%, and $23.0 million, or 3.1%, when compared with the respective periods of the prior year. The increases in personnel costs for the three and six months ended June 30, 2017, adjusted for the impact of new acquisitions, were primarily attributable to higher salary expense due to an increase in average salaries and higher incentive compensation expense due to higher revenue and profitability, partially offset by a decrease in temporary labor costs and overtime expense.

Agents retained $435.8 million and $889.7 million of title premiums generated by agency operations for the three and six months ended June 30, 2017, respectively, which compares with $403.7 million and $808.7 million for the respective periods of the prior year. The percentage of title premiums retained by agents was 78.7% and 78.8% for the three and six months ended June 30, 2017, respectively, compared to 78.3% and 78.7% for the respective periods of the prior year.

Other operating expenses for the title insurance and services segment were $199.7 million and $383.0 million for the three and six months ended June 30, 2017, respectively, increases of $4.2 million, or 2.2%, and $22.0 million, or 6.1%, when compared with the respective periods of the prior year. The increases were driven by recent acquisitions. Excluding the $9.4 million and $18.1 million impact of new acquisitions for the three and six months ended June 30, 2017, respectively, other operating expenses decreased $5.2 million, or 2.6%, and increased $3.9 million, or 1.1%, when compared with the respective periods of the prior year. The decrease for the three months ended June 30, 2017, adjusted for the impact of acquisitions, was attributable to small decreases across a number of expense categories. The increase for the six months ended June 30, 2017, adjusted for the impact of acquisitions, was primarily attributable to the first quarter of 2016 benefiting from the recovery of an insurance claim.

The provision for policy losses and other claims, expressed as a percentage of title insurance premiums and escrow fees, was 4.0% for the three and six months ended June 30, 2017 compared to 5.5% for the three and six months ended June 30, 2016. The current quarter rate of 4.0% reflects the ultimate loss rate for the current policy year and no change in the loss reserve estimates for prior policy years. The second quarter of 2016 rate of 5.5% reflected the ultimate loss rate of 5.0% for the 2016 policy year and a $5.2 million net increase in the loss reserve estimates for prior policy years.

Depreciation and amortization expense was $28.6 million and $57.1 million for the three and six months ended June 30, 2017, respectively, increases of $6.1 million, or 27.3%, and $13.6 million, or 31.2%, when compared with the respective periods of the prior year. The increases were primarily attributable to higher amortization expense associated with internally developed technology, including $2.0 mill ion and $4.1 million for the three and six months ended June 30, 2017, respectively, from accelerated amortization as the result of a shortened useful life for a software interface. The increases were also due to amortization expense associated with purch ased software licenses that was previously included in other operating expenses.

Premium taxes were $15.3 million and $29.1 million for the three and six months ended June 30, 2017, respectively, increases of $1.0 million, or 7.1%, and $1.9 million, or 7.0%, respectively, compared to $14.2 million and $27.2 million for the same periods of the prior year. Premium taxes as a percentage of title insurance premiums and escrow fees were 1.4% for the three and six months ended June 30, 2017 and 2016.

The profit margins for the title insurance business reflect the high cost of performing the essential services required before insuring title, whereas the corresponding revenues are subject to regulatory and competitive pricing restraints. Due to this relatively high proportion of fixed costs, title insurance profit margins generally improve as closed order volumes increase. Title insurance profit margins are affected by the composition (residential or commercial) and type (resale, refinancing or new construction) of real estate activity. Title insurance profit margins are also affected by the percentage of title insurance premiums generated by agency operations. Profit margins from direct operations are generally higher than from agency operations due primarily to the large portion of the premium that is retained by the agent. Pre-tax margins for the three and six months ended June 30, 2017 were 14.8% and 11.6%, respectively, compared with 13.7% and 11.0% in the respective periods of the prior year.

Specialty Insurance

	Three Months Ended June 30,				Six Months Ended June 30,			
(in thousands, except percentages)	2017	2016	$ Change	% Change	2017	2016	$ Change	% Change
Revenues								
Direct premiums	$ 108,844	$ 101,104	$ 7,740	7.7%	$ 213,894	$ 198,978	$ 14,916	7.5%
Information and other	2,874	819	2,055	250.9	5,613	1,640	3,973	242.3
Net investment income	2,321	2,254	67	3.0	4,650	4,490	160	3.6
Net realized investment gains	1,123	247	876	354.7	1,270	2,357	(1,087)	(46.1)
	115,162	104,424	10,738	10.3	225,427	207,465	17,962	8.7
Expenses								
Personnel costs	17,891	17,023	868	5.1	35,154	33,802	1,352	4.0
Other operating expenses	16,766	14,209	2,557	18.0	34,051	28,961	5,090	17.6
Provision for policy losses and other claims	67,472	65,234	2,238	3.4	129,998	121,816	8,182	6.7
Depreciation and amortization	1,547	1,459	88	6.0	3,098	2,707	391	14.4
Premium taxes	1,926	1,781	145	8.1	3,525	3,217	308	9.6
	105,602	99,706	5,896	5.9	205,826	190,503	15,323	8.0
Income before income taxes	$ 9,560	$ 4,718	$ 4,842	102.6%	$ 19,601	$ 16,962	$ 2,639	15.6%
Margins	8.3%	4.5%	3.8%	84.4%	8.7%	8.2%	0.5%	6.1%

Direct premiums were $108.8 million and $213.9 million for the three and six months ended June 30, 2017, respectively, increases of $7.7 million, or 7.7%, and $14.9 million, or 7.5%, when compared with the respective periods of the prior year. The increases were attributable to higher premiums earned in the home warranty business driven by an increase in the number of home warranty residential service contracts issued and an increase in the average price charged per contract.

Information and other revenues were $2.9 million and $5.6 million for the three and six months ended June 30, 2017, respectively, in creases of $2.1 million, or 250.9%, and $4.0 million, or 242.3%, when compared with the respective periods of the prior year. The increase s were due to a change in how the Company reports installment fees related to home warranty residential service contr acts. Beginning December 31, 2016, the Company reported installment fees in information and other revenues, while prior to December 31, 2016, the Company reported installment fees as a reduction in other operating expenses. This change resulted in an inc rease to information and other revenues and an increase to other operating expenses of $ 2.1 million and $ 4.0 million for the three and six months ended June 30, 2017 when compared with the respective periods of the prior year.

Net realized investment gains totaled $1.1 million and $1.3 million for the three and six months ended June 30, 2017, respectively, and $0.2 million and $2.4 million for the three and six months ended June 30, 2016, respectively. The net realized gains for the three and six months ended June 30, 2017 were from the sales of debt and equity securities. The net realized gains for the three months ended June 30, 2016 were from the sales of debt securities. The net realized gains for the six months ended June 30, 2016 were primarily from the sale of real estate.

Personnel costs and other operating expenses were $34.7 million and $69.2 million for the three and six months ended June 30, 2017, respectively, increases of $3.4 million, or 11.0%, and $6.4 million, or 10.3%, when compared with the respective periods of the prior year. The increases were primarily attributable to a change in how the Company reports installment fees related to home warranty residential service contracts which is further discussed above.

The provision for home warranty claims, expressed as a percentage of home warranty premiums, was 57.9% and 53.9% for the three and six months ended June 30, 2017, respectively, compared with 66.6% and 60.0% for the respective periods of the prior year. The decrease in the claims rate for the three months ended June 30, 2017 was primarily attributable to a decrease in the severity of claims and, to a lesser extent, a decrease in the frequency of claims and an increase in average revenue per contract. The decrease in the severity of claims was primarily due to more efficient claims management, which was mainly driven by improved rates with contractors and more efficient allocation of claims to contractors. The severity and frequency of home warranty claims also benefited from milder weather conditions when compared to the same quarter of the prior year. The provision for property and casualty claims, expressed as a percentage of property and casualty insurance premiums, was 71.9% and 77.0% for the three and six months ended June 30, 2017, respectively, compared with 60.0% and 63.9% for the respective periods of the prior year. The increase in the claims rate for the three months ended June 30, 2017 was primarily attributable to an increase in the frequency of claims, partially offset by a decrease in the severity of claims.

Premium taxes were $1.9 million and $3.5 million for the three and six months ended June 30, 2017, respectively, compared with $1.8 million and $3.2 million for the respective periods of the prior year. Premium taxes as a percentage of specialty insurance segment premiums were 1.8% and 1.6% for the three and six months ended June 30, 2017 and 2016, respectively.

A large part of the revenues for the specialty insurance businesses are generated by renewals and are not dependent on the level of real estate activity in the year of renewal. With the exception of loss expense, the majority of the expenses for this segment are variable in nature and therefore generally fluctuate consistent with revenue fluctuations. Accordingly, profit margins for this segment (before loss expense) are relatively constant, although as a result of some fixed expenses, profit margins (before loss expense) should nominally improve as premium revenues increase. Pre-tax margins for the three and six months ended June 30, 2017 were 8.3% and 8.7%, respectively, compared with 4.5% and 8.2% in the respective periods of the prior year.

Corporate

	Three Months Ended June 30,				Six Months Ended June 30,			
(in thousands, except percentages)	2017	2016	$ Change	% Change	2017	2016	$ Change	% Change
Revenues								
Net investment income	$ 2,646	$ 1,202	$ 1,444	120.1%	$ 6,764	$ 1,410	$ 5,354	379.7%
	2,646	1,202	1,444	120.1	6,764	1,410	5,354	379.7
Expenses								
Personnel costs	10,935	10,903	32	0.3	23,966	21,756	2,210	10.2
Other operating expenses	6,609	6,663	(54)	(0.8)	13,727	13,094	633	4.8
Depreciation and amortization	41	96	(55)	(57.3)	86	192	(106)	(55.2)
Interest	7,772	7,088	684	9.7	16,100	14,242	1,858	13.0
	25,357	24,750	607	2.5	53,879	49,284	4,595	9.3
Loss before income taxes	$ (22,711)	$ (23,548)	$ 837	3.6%	$ (47,115)	$ (47,874)	$ 759	1.6%

Net investment income totaled $2.6 million and $6.8 million for the three and six months ended June 30, 2017, respectively, compared with $1.2 million and $1.4 million for the respective periods of the prior year. The increases in net investment income for the three and six months ended June 30, 2017 were primarily attributable to higher earnings on investments associated with the Company's deferred compensation plan when compared to the same periods of 2016.

Corporate personnel costs and other operating expenses were $17.5 million and $37.7 million for the three and six months ended June 30, 2017, respectively, compared with $17.6 million and $34.9 million for the respective periods of the prior year. These expenses for the three months ended June 30, 2017 were essentially flat when compared to the same period in 2016. The increase for the six months ended June 30, 2017 was due to increased costs related to the investments associated with the Company's deferred compensation plan, partially offset by lower expense related to the Company's defined benefit pension and supplemental benefit plans.

Interest expense was $7.8 million and $16.1 million for the three and six months ended June 30, 2017, respectively, increases of $0.7 million, or 9.7%, and $1.9 million, or 13.0%, when compared with the respective periods of the prior year. The increases were due to the Company borrowing $160.0 million under its credit facility during September 2016.

Eliminations

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

INCOME TAXES

The Company's effective income tax rates (income tax expense as a percentage of income before income taxes) were 33.8% and 32.9% for the three and six months ended June 30, 2017, respectively, compared with 33.3% and 32.3% for the respective periods of the prior year. The Company's effective tax rate for 2017 reflects the adoption of new accounting guidance related to the accounting for share-based payment transactions, which requires, among other items, that all excess tax benefits and tax deficiencies associated with share-based payment transactions be recorded in income tax expense rather than in additional paid-in capital, as previously required. The impact to the Company of adopting this guidance was a reduction in income tax expense of $0.3 million and $2.7 million for the three and six months ended June 30, 2017, respectively. See Note 1 Basis of Condensed Consolidated Financial Statements to the condensed consolidated financial statements for further discussion of the new guidance. The Company's effective tax rate for 2016 reflects the resolution of certain tax authority examinations and tax credits claimed in 2016 and in prior years.

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

NET INCOME AND NET INCOME ATTRIBUTABLE TO THE COMPANY

Net income for the three and six months ended June 30, 2017 was $121.9 million and $180.0 million, respectively, compared with $102.5 million and $155.1 million for the respective periods of the prior year. Net income attributable to the Company for the three and six months ended June 30, 2017 was $122.3 million, or $1.09 per diluted share, and $180.5 million, or $1.61 per diluted share, respectively, compared with $102.1 million, or $0.92 per diluted share, and $154.7 million, or $1.40 per diluted share, for the respective periods of the prior year.

LIQUIDITY AND CAPITAL RESOURCES

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

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

Cash provided by operating activities amounted to $234.6 million and $146.4 million for the six months ended June 30, 2017 and 2016, respectively, after claim payments, net of recoveries, of $225.8 million and $225.6 million, respectively. The principal nonoperating uses of cash and cash equivalents for the six months ended June 30, 2017 and 2016 were purchases of debt and equity securities, capital expenditures and dividends to common stockholders. The most significant nonoperating sources of cash and cash equivalents for the six months ended June 30, 2017 and 2016 were proceeds from the sales and maturities of debt and equity securities and increases in the deposit balances at the Company's banking operations. The net effect of all activities on total cash and cash equivalents were increases of $160.6 million and $214.5 million for the six months ended June 30, 2017 and 2016, respectively.

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

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

Holding Company. First American Financial Corporation is a holding company that conducts all of its operations through its subsidiaries. The holding company's current cash requirements include payments of principal and interest on its debt, taxes, payments in connection with employee benefit plans, dividends on its common stock and other expenses. The holding company is dependent upon dividends and other payments from its operating subsidiaries to meet its cash requirements. The Company's target is to maintain a cash balance at the holding company equal to at least twelve months of estimated cash requirements. At certain points in time, the actual cash balance at the holding company may vary from this target due to, among other factors, the timing and amount of cash payments made and dividend payments received. Pursuant to insurance and other regulations under which the Company's insurance subsidiaries operate, the amount of dividends, loans and advances available to the holding company is limited, principally for the protection of policyholders. As of June 30, 2017 , under such regulations, the maximum amount of dividends, loans and advances available to the holding company from its insurance subsidiaries for the remainder of 2017, without prior approval from applicable regulators, was $ 75 3.7 million. However, th e timing and amount of dividends paid by the Company's insurance subsidiaries to the holding company falls within the discretion of each insurance subsidiary's board of directors and will depend upon many factors, including the level of total statutory cap ital and surplus required to support minimum financial strength ratings by certain rating agencies. Such restrictions have not had, nor are they expected to have, an impact on the holding company's ability to meet its cash obligations.

As of June 30, 2017, the holding company's sources of liquidity included $255.0 million of cash and cash equivalents and $540.0 million available on the Company's revolving credit facility. Management believes that liquidity at the holding company is sufficient to satisfy anticipated cash requirements and obligations for at least the next twelve months.

Financing. The Company maintains a credit agreement with JPMorgan Chase Bank, N.A. in its capacity as administrative agent and the lenders party thereto. The credit agreement is comprised of a $700.0 million revolving credit facility. Unless terminated earlier, the revolving loan commitments under the credit agreement will terminate on May 14, 2019. The obligations of the Company under the credit agreement are neither secured nor guaranteed. Proceeds under the credit agreement may be used for general corporate purposes. At June 30, 2017, outstanding borrowings under the facility totaled $160.0 million at an interest rate of 2.98%.

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

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

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

In addition to amounts available under its credit facility, certain subsidiaries of the Company are parties to master repurchase agreements which are used as part of the Company's liquidity management activities and to support its risk management activities. In particular, securities loaned or sold under repurchase agreements may be used as short-term funding sources. During the six months ended June 30, 2017, the Company financed securities for funds received totaling $5.0 million under these agreements. As of June 30, 2017, no amounts remained outstanding under these agreements.

Notes and contracts payable as a percentage of total capitalization was 18.7% and 19.6% at June 30, 2017 and December 31, 2016, respectively.

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

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

Off-balance sheet arrangements. The Company administers escrow deposits and trust assets as a service to its customers. Escrow deposits totaled $7.5 billion and $6.8 billion at June 30, 2017 and December 31, 2016, respectively, of which $3.0 billion and $2.6 billion, respectively, were held at the Company's federal savings bank subsidiary, First American Trust, FSB. The escrow deposits held at First American Trust, FSB are temporarily invested in cash and cash equivalents and debt securities, with offsetting liabilities included in deposits in the accompanying condensed consolidated balance sheets. The remaining escrow deposits were held at third-party financial institutions.

Trust assets held or managed by First American Trust, FSB totaled $3.4 billion and $3.2 billion at June 30, 2017 and December 31, 2016, respectively. Escrow deposits held at third-party financial institutions and trust assets are not considered assets of the Company and, therefore, are not included in the accompanying condensed consolidated balance sheets. However, the Company could be held contingently liable for the disposition of these assets.

In conducting its operations, the Company often holds customers' assets in escrow, pending completion of real estate transactions and, as a result, the Company has ongoing programs for realizing economic benefits with various financial institutions. The results from these programs are included in the condensed consolidated financial statements as income or a reduction in expense, as appropriate, based on the nature of the arrangement and benefit received.

The Company facilitates tax-deferred property exchanges for customers pursuant to Section 1031 of the Internal Revenue Code and tax-deferred reverse exchanges pursuant to Revenue Procedure 2000-37. As a facilitator and intermediary, the Company holds the proceeds from sales transactions and takes temporary title to property identified by the customer to be acquired with such proceeds. Upon the completion of each such exchange, the identified property is transferred to the customer or, if the exchange does not take place, an amount equal to the sales proceeds or, in the case of a reverse exchange, title to the property held by the Company is transferred to the customer. Like-kind exchange funds held by the Company totaled $2.5 billion and $2.0 billion at June 30, 2017 and December 31, 2016, respectively. The like-kind exchange deposits are held at third-party financial institutions and, due to the structure utilized to facilitate these transactions, the proceeds and property are not considered assets of the Company and, therefore, are not included in the accompanying condensed consolidated balance sheets. All such amounts are placed in deposit accounts insured, up to applicable limits, by the Federal Deposit Insurance Corporation. The Company could be held contingently liable to the customer for the transfers of property, disbursements of proceeds and the returns on such proceeds.

At June 30, 2017 and December 31, 2016, the Company was contingently liable for guarantees of indebtedness owed by affiliates and third parties to banks and others totaling $7.4 million and $7.1 million, respectively. The guarantee arrangements relate to promissory notes and other contracts that contingently require the Company to make payments to the guaranteed party upon the failure of debtors to make scheduled payments according to the terms of the notes and contracts. The Company's maximum potential obligation under these guarantees totaled $7.4 million and $7.1 million at June 30, 2017 and December 31, 2016, respectively, and is limited in duration to the terms of the underlying indebtedness. The Company has not incurred any costs as a result of these guarantees and has not recorded a liability on its condensed consolidated balance sheets related to these guarantees at June 30, 2017 and December 31, 2016.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

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

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

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

PART II: OTHER INFORMATION

Item 1 . Legal Proceedings.

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

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

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

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

Most of the non-ordinary course lawsuits to which the Company and its subsidiaries are parties challenge practices in the Company's title insurance business, though a limited number of cases also pertain to the Company's other businesses. These lawsuits include, among others, cases alleging, among other assertions, that the Company, one of its subsidiaries and/or one of its agents:

- charged an improper rate for title insurance in a refinance transaction, including
    - Lewis v. First American Title Insurance Company, filed on November 28, 2006 and pending in the United States District Court for the District of Idaho.

A court has granted class certification in Lewis. For the reasons stated above, the Company has been unable to assess the probability of loss or estimate the possible loss or the range of loss.

- misclassified certain employees, including

  - Cruz v. First American Financial Corporation, et al., filed on November 25, 2015 and pending in the Superior Court of the State of California, County of Orange,
  - Sager v. Interthinx, Inc., filed on January 23, 2015 and pending in the Superior Court of the State of California, County of Los Angeles, and
  - Weber v. Interthinx, Inc., et al., filed on April 17, 2015 and pending in the United States District Court for the Eastern District of Missouri.

  These lawsuits are putative class actions for which a class has not been certified. For the reasons described above, as well as the applicability of certain indemnification rights the Company may have, the Company has not yet been able to assess the probability of loss or estimate the possible loss or the range of loss or, where the Company has been able to make an estimate, the Company believes the amount is not material to the condensed consolidated financial statements as a whole.

- overcharged or improperly charged fees for products and services, conspired to fix prices, participated in the conveyance of illusory property interests, denied home warranty claims, improperly handled property and casualty claims, and gave items of value to brokers and others as inducements to refer business in violation of certain laws, such as consumer protection laws and laws generally prohibiting unfair business practices, and certain obligations, including

  - Chavez v. First American Specialty Insurance Company, filed on June 29, 2017 and pending in the Superior Court of the State of California, County of Los Angeles,
  - Downing v. First American Title Insurance Company, et al., filed on July 26, 2016 and pending in the United States District Court for the Northern District of Georgia,
  - Kaufman v. First American Financial Corporation, et al., filed on December 21, 2007 and pending in the Superior Court of the State of California, County of Los Angeles,
  - Kirk v. First American Financial Corporation, et al., filed on June 15, 2006 and pending in the Superior Court of the State of California, County of Los Angeles,
  - Lennen v. First American Financial Corporation, et al., filed on May 19, 2016 and pending in the United States District court for the Middle District of Florida,
  - McCormick v. First American Real Estate Services, Inc., et al., filed on December 31, 2015 and pending in the Superior Court of the State of California, County of Orange,
  - Sjobring v. First American Financial Corporation, et al., filed on February 25, 2005 and pending in the Superior Court of the State of California, County of Los Angeles,
  - Tenefufu vs. First American Specialty Insurance Company, filed on June 1, 2017, pending in the Superior Court of the State of California, County of Sacramento,
  - Wilmot v. First American Financial Corporation, et al., filed on April 20, 2007 and pending in the Superior Court of the State of California, County of Los Angeles, and
  - In re First American Home Buyers Protection Corporation, consolidated on October 9, 2014 and pending in the United States District Court for the Southern District of California.

  All of these lawsuits, except Kaufman, Kirk and Sjobring, are putative class actions for which a class has not been certified. In Kaufman a class was certified but that certification was subsequently vacated. A trial of the Kirk matter has concluded and the judgment has been affirmed on appeal. For the reasons described above, the Company has not yet been able to assess the probability of loss or estimate the possible loss or the range of loss or, where the Company has been able to make an estimate, the Company believes the amount is not material to the condensed consolidated financial statements as a whole.

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

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

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

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

Item 1A. Risk Factors.

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

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

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

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

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

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

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

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

The Company performs an impairment test of the carrying value of goodwill and other indefinite-lived intangible assets annually in the fourth quarter, or sooner if circumstances indicate a possible impairment. Finite-lived intangible assets are subject to impairment tests on a periodic basis. Factors that may be considered in connection with this review include, without limitation, underperformance relative to historical or projected future operating results, reductions in the Company's stock price and market capitalization, increased cost of capital and negative macroeconomic, industry and company-specific trends. These and other factors could lead to a conclusion that goodwill or other intangible assets are no longer fully recoverable, in which case the Company would be required to write off the portion believed to be unrecoverable. Total goodwill and other intangible assets reflected on the Company's condensed consolidated balance sheet as of June 30, 2017 are $1.1 billion. Any substantial goodwill and other intangible asset impairments that may be required could have a material adverse effect on the Company's results of operations and financial condition.

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

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

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

Many of the Company's businesses, including its title insurance, property and casualty insurance, home warranty, banking, trust and investment businesses, are regulated by various federal, state, local and foreign governmental agencies. These and other of the Company's businesses also operate within statutory guidelines. The industry in which the Company operates and the markets into which it sells its products are also regulated and subject to statutory guidelines. Changes in the applicable regulatory environment, statutory guidelines or interpretations of existing regulations or statutes, enhanced governmental oversight or efforts by governmental agencies to cause customers to refrain from using the Company's products or services could prohibit or limit its future operations or make it more burdensome to conduct such operations or result in decreased demand for the Company's products and services or a change in our competitive position. The impact of these changes would be more significant if they involve jurisdictions in which the Company generates a greater portion of its title premiums, such as the states of Arizona, California, Florida, Michigan, New York, Ohio, Pennsylvania and Texas. These changes may compel the Company to reduce its prices, may restrict its ability to implement price increases or acquire assets or businesses, may limit the manner in which the Company conducts its business or otherwise may have a negative impact on its ability to generate revenues, earnings and cash flows.

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

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

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

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

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

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

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

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

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

Federal officials are currently discussing various potential changes to laws and regulations that could impact the Company's businesses, including changes to the Dodd-Frank Wall Street Reform and Consumer Protection Act, the reform or privatization of government-sponsored enterprises such as the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac), and tax reform, including changes that could affect the mortgage interest deduction, among others. Changes in these areas, and more generally in the regulatory environment in which the Company and its customers operate, could adversely impact the volume of mortgage originations in the United States and the Company's competitive position and results of operations.

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

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

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

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

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

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

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

The Company maintains a substantial investment portfolio, primarily consisting of fixed income securities (including mortgage-backed securities). The investment portfolio also includes money-market and other short-term investments, as well as preferred and common stock. Securities in the Company's investment portfolio are subject to certain economic and financial market risks, such as credit risk, interest rate (including call, prepayment and extension) risk and/or liquidity risk. The risk of loss associated with the portfolio is increased during periods of instability in credit markets and economic conditions. If the carrying value of the investments exceeds the fair value, and the decline in fair value is deemed to be other-than-temporary, the Company will be required to write down the value of the investments, which could have a material adverse effect on the Company's results of operations, statutory surplus and financial condition.

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

The Company maintains a reserve for incurred but not reported ("IBNR") claims pertaining to its title, escrow and other insurance and guarantee products. The majority of this reserve pertains to title insurance policies, which are long-duration contracts with the majority of the claims reported within the first few years following the issuance of the policy. Generally, 70% to 80% of claim amounts become known in the first six years of the policy life, and the majority of IBNR reserves relate to the six most recent policy years. Changes in expected ultimate losses and corresponding loss rates for recent policy years are considered likely and could result in a material adjustment to the IBNR reserves. Based on historical experience, management believes a 50 basis point change to the loss rates for recent policy years, positive or negative, is reasonably likely given the long duration nature of a title insurance policy. For example, if the expected ultimate losses for each of the last six policy years increased or decreased by 50 basis points, the resulting impact on the Company's IBNR reserve would be an increase or decrease, as the case may be, of $113.7 million. A material change in expected ultimate losses and corresponding loss rates for older policy years is also possible, particularly for policy years with loss ratios exceeding historical norms. The estimates made by management in determining the appropriate level of IBNR reserves could ultimately prove to be materially different from actual claims experience.

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

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

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

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

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

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

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

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

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

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

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

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

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

20. Acquisitions may have an adverse effect on our business

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

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

The Company is a holding company whose primary assets are investments in its operating subsidiaries. The Company's ability to pay dividends is dependent on the ability of its subsidiaries to pay dividends or repay funds. If the Company's operating subsidiaries are not able to pay dividends or repay funds, the Company may not be able to fulfill parent company obligations and/or declare and pay dividends to its stockholders. Moreover, pursuant to insurance and other regulations under which the Company's insurance subsidiaries operate, the amount of dividends, loans and advances available is limited. As of June 30, 2017, under such regulations, the maximum amount of dividends, loans and advances available for the remainder of 2017 from these insurance subsidiaries, without prior approval from applicable regulators, was $753.7 million.

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

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

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

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

Item 6. Exhibits.

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

SIGNATURES

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

FIRST AMERICAN FINANCIAL CORPORATION
(Registrant)

By /s/ Dennis J. Gilmore
Dennis J. Gilmore
Chief Executive Officer
(Principal Executive Officer)

By /s/ Mark E. Seaton
Mark E. Seaton
Chief Financial Officer
(Principal Financial Officer)

Date: July 27, 2017

EXHIBIT INDEX

Exhibit No.	Description	Location
3.1	Amended and Restated Certificate of Incorporation of First American Financial Corporation dated May 28, 2010.	Incorporated by reference herein to Exhibit 3.1 to the Current Report on Form 8-K dated June 1, 2010.
3.2	Amended and Restated Bylaws of First American Financial Corporation, effective as of February 20, 2015.	Incorporated by reference herein to Exhibit 3.2 to the Annual Report on Form 10-K for the year ended December 31, 2014.
10.1	First American Financial Corporation 2010 Incentive Compensation Plan, amended and restated effective as of May 9, 2017.	Incorporated by reference herein to Exhibit 10.1 to the Current Report on Form 8-K dated May 9, 2017.
10.2	Second Amendment effective July 1, 2017, to the amended and restated First American Financial Corporation Deferred Compensation Plan.	Attached.
31(a)	Certification by Chief Executive Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.	Attached.
31(b)	Certification by Chief Financial Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.	Attached.
32(a)	Certification by Chief Executive Officer Pursuant to 18 U.S.C. Section 1350.	Attached.
32(b)	Certification by Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.	Attached.
101.INS	XBRL Instance Document.	Attached.
101.SCH	XBRL Taxonomy Extension Schema Document.	Attached.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.	Attached.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.	Attached.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.	Attached.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.	Attached.

Exhibit 10.2

SECOND AMENDMENT
TO THE
FIRST AMERICAN FINANCIAL CORPORATION
DEFERRED COMPENSATION PLAN
(As Amended and Restated Effective as of January 1, 2012)

WHEREAS , First American Financial Corporation (the " Company ") maintains the First American Financial Corporation Deferred Compensation Plan, as amended and restated effective as of January 1, 2012 and subsequently amended (the " Plan "); and

WHEREAS , pursuant to Section 9.1 of the Plan, the Company's Administrative Benefits Plan Committee may amend the Plan at any time.

NOW, THEREFORE, BE IT RESOLVED , that the Plan is hereby amended as follows effective as of July 1, 2017:

1. Section 4.2(a) of the Plan is hereby amended and restated in its entirety to read as follows:

> "(a) The Company has created a Trust with First American Trust, FSB serving as the i nitial trustee (such trustee or any successor trustee, the "Trustee"). Each Participating Company may contribute such amounts to the Trust as it shall deem necessary or appropriate."

2. Except as provided for above, the Plan as in effect prior to this amendment shall continue in effect unchanged.

IN WITNESS WHEREOF , the First American Financial Corporation Administrative Benefits Plan Committee has caused this Second Amendment to the First American Financial Corporation Deferred Compensation Plan, as amended and restated effective January 1, 2012, to be executed effective as of the date given above, on this first day of July, 2017.

Administrative Benefits Plan Committee

By: /s/ Mark Rutherford

Name: Mark Rutherford

Title: Chairman, First American Financial Corporation Administrative Benefits Plan Committee

Exhibit (31)(a)

CERTIFICATIONS

I, Dennis J. Gilmore, certify that:

1. I have reviewed this quarterly report on Form 10-Q of First American Financial Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 27, 2017

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

Exhibit (31)(b)

CERTIFICATIONS

I, Mark E. Seaton, certify that:

1. I have reviewed this quarterly report on Form 10-Q of First American Financial Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 27, 2017

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

Exhibit (32)(a)

Certification pursuant to 18 U.S.C. Section 1350,
as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Form 10-Q of First American Financial Corporation (the “Company”) for the period ended June 30, 2017, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Dennis J. Gilmore, chief executive officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this statement has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

/s/ Dennis J. Gilmore
Dennis J. Gilmore
Chief Executive Officer
July 27 , 2017

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. §1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

Exhibit (32)(b)

Certification pursuant to 18 U.S.C. Section 1350,
as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Form 10-Q of First American Financial Corporation (the “Company”) for the period ended June 30, 2017, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Mark E. Seaton, chief financial officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this statement has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

/s/ Mark E. Seaton
Mark E. Seaton
Chief Financial Officer
July 27 , 2017

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. §1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.