

MFS HIGH INCOME MUNICIPAL TRUST  
Form N-CSRS  
August 08, 2007

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM N-CSR**

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED**  
**MANAGEMENT INVESTMENT COMPANIES**

Investment Company Act file number 811-5754

**MFS HIGH INCOME MUNICIPAL TRUST**

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(Exact name of registrant as specified in charter)

**500 Boylston Street, Boston, Massachusetts**  
(Address of principal executive offices)

**02116**  
(Zip code)

**Susan S. Newton**

**Massachusetts Financial Services Company**

**500 Boylston Street**

**Boston, Massachusetts 02116**

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(Name and address of agents for service)

Registrant's telephone number, including area code: (617) 954-5000

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Date of fiscal year end: November 30

Date of reporting period: May 31, 2007

On June 29, 2007, Massachusetts Financial Services Company ( MFS ) became the investment adviser of the Registrant, and Maria F. Dwyer and Tracy Atkinson became the chief executive officer and the chief financial officer, respectively, of the Registrant. During the semi-annual period ended May 31, 2007, Columbia Management Advisors, LLC ( Columbia ) served as investment adviser to the Registrant, during which representatives of Columbia served as chief executive officer and chief financial officer of the Registrant.

**ITEM 1. REPORTS TO STOCKHOLDERS.**



## Letter from the MFS CEO

Dear Shareholders:

Welcome to MFS®. The shareholders of your fund approved MFS Investment Management® as the fund's new investment advisor, effective at the close of business on June 29, 2007. In connection with the appointment of MFS, the name of your fund changed to MFS® High Income Municipal Trust. The enclosed semiannual report contains information for the period ended May 31, 2007. Because this is prior to the name change, the fund is referred to in the report by its old name. Also, unless otherwise noted, the report refers to the fund's management, investments, policies and procedures, and other characteristics as they existed

prior to June 29, 2007, when MFS assumed administrative, financial reporting, compliance, and other responsibilities for the fund. Your fund's investment objectives and principal investment strategies will remain the same; however, the fund will be managed by a new portfolio management team. The fund's new portfolio managers are Geoffrey L. Schechter, who has been employed in the investment management area of MFS since 1993, and Gary A. Lasman, who has been employed in the investment management area of MFS since 2002. Prior to 2002, Mr. Lasman was employed as a Senior Municipal Analyst for the Liberty Funds Group.

I want to thank you for trusting us to manage your money and would like to take this opportunity to introduce you to our management approach.

At MFS we have a long tradition of investment management. For more than 80 years we have applied a consistent, bottom-up, research-driven method to security selection with a top-down approach to risk management.

In 1932 MFS became one of the first investment management firms in the United States to establish its own in-house research department. Today, this department has evolved into a global research team providing on-the-ground coverage in the more than 60 countries where our portfolios invest. Our team approach extends across asset classes and contributes to our culture of collaboration, which has been crucial in supporting the free and open exchange of ideas while ensuring the highest standards of accountability.

When working with MFS, you can count on us to continue to provide securities analysis that is research driven, globally integrated, and disciplined.

We look forward to helping you reach your investing goals.

Respectfully,

Robert J. Manning

Chief Executive Officer, President, and Chief Investment Officer

MFS Investment Management

July 12, 2007

The opinions expressed in this letter are subject to change, may not be relied upon for investment advice, and no forecasts can be guaranteed.

# Investment Portfolio

Colonial High Income Municipal Trust

May 31, 2007 (Unaudited)

**Municipal Bonds 152.3%**

		Par (\$)	Value (\$)
<b>Education 4.1%</b>			
<b>Education 2.2%</b>			
<b>CA Educational Facilities Authority</b>	Loyola Marymount University, Series 2001, Insured: MBIA (a) 10/01/19	2,025,000	1,185,293
<b>MI Conner Creek Academy East</b>	Series 2007, 5.250% 11/01/36	1,170,000	1,159,552
<b>MI Southfield Economic Development Corp.</b>	Lawrence University, Series 1998 A, 5.400% 02/01/18	1,000,000	1,015,010
<b>PA Higher Education Facilities Authority</b>	Philadelphia University, Series 2004 A, 5.125% 06/01/25	600,000	613,266
<b>WV University</b>	Series 2000 A, Insured: AMBAC (a) 04/01/19	1,000,000	598,870
<b>Education Total</b>			<b>4,571,991</b>
<b>Prep School 1.9%</b>			
<b>CA Statewide Communities Development Authority</b>	Crossroads School for Arts & Sciences, Series 1998, 6.000% 08/01/28(b)	1,230,000	1,270,356
<b>IL Finance Authority</b>	Chicago Charter School Foundation, Series 2007, 5.000% 12/01/26	1,000,000	1,021,240
<b>MA Industrial Finance Agency</b>	Cambridge Friends School, Series 1998, 5.800% 09/01/28	1,000,000	1,008,690
<b>MI Summit Academy North</b>	Series 2005, 5.500% 11/01/35	500,000	503,315
<b>Prep School Total</b>			<b>3,803,601</b>
<b>Education Total</b>			<b>8,375,592</b>
<b>Health Care 46.7%</b>			
<b>Continuing Care Retirement 20.6%</b>			
<b>AZ Health Facilities Authority</b>	Beatitudes Campus Project, Series 2007, 5.200% 10/01/37	1,250,000	1,248,012
<b>CA La Verne</b>	Brethren Hillcrest Homes, Series 2003 B, 6.625% 02/15/25	690,000	750,561
<b>CO Health Facilities Authority</b>	Christian Living Communities Project, Series 2006 A, 5.750% 01/01/26	600,000	626,682
	Covenant Retirement Communities, Inc., Series 2005, 5.000% 12/01/35	1,400,000	1,407,700

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## CT Development Authority

Elim Park Baptist Home, Inc., Series 2003,  
5.850% 12/01/33

660,000

700,788

See Accompanying Notes to Financial Statements.

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Colonial High Income Municipal Trust

May 31, 2007 (Unaudited)

**Municipal Bonds** (continued)

		Par (\$)	Value (\$)
<b>Health Care</b> (continued)			
<b>Continuing Care Retirement</b> (continued)			
<b>FL Lee County Industrial Development Authority</b>	Shell Point Village, Series 2007, 5.000% 11/15/29	925,000	924,981
<b>FL St. John s County Industrial Development Authority</b>	Glenmoor at St. John s, Inc., Series 2006 A: 5.250% 01/01/26 5.375% 01/01/40	500,000 250,000	504,735 253,735
	Ponte Vedra, Inc., Series 2007, 5.000% 02/15/27	400,000	403,648
<b>GA Fulton County</b>	Canterbury Court Project, Series 2004 A, 6.125% 02/15/34	750,000	785,235
	Lenbrook Project, Series 2006 A: 5.000% 07/01/29 5.125% 07/01/42	1,000,000 1,000,000	990,730 992,710
<b>GA Savannah Economic Development Authority</b>	Marshes of Skidaway, Series 2003 A, 7.400% 01/01/34	465,000	490,082
<b>IA Finance Authority</b>	Deerfield Retirement Community, Inc., Series 2007 A, 5.500% 11/15/27	300,000	305,478
<b>IL Finance Authority</b>	Lutheran Senior Services, Series 2006, 5.125% 02/01/26	1,250,000	1,293,762
	Washington & Jane Smith Community: Series 2003 A, 7.000% 11/15/32	725,000	785,349
	Series 2005 A, 6.250% 11/15/35	1,250,000	1,316,912
<b>IN Health &amp; Educational Facilities Financing Authority</b>	Baptist Homes of Indiana, Inc., Series 2005, 5.250% 11/15/35	1,000,000	1,030,250
<b>MA Boston Industrial Development Financing Authority</b>	Springhouse, Inc., Series 1998, 5.875% 07/01/20	255,000	259,674
<b>MA Development Finance Agency</b>	Loomis House, Inc.: Series 1999 A, 5.625% 07/01/15	400,000	406,896
	Series 2002 A, 6.900% 03/01/32	100,000	109,206
<b>MD Baltimore County</b>	Oak Crest Village, Inc., Series 2007A, 5.000% 01/01/27	500,000	507,590
<b>MD Health &amp; Higher Educational Facilities Authority</b>	King Farm Presbyterian Community, Series 2007 A, 5.250% 01/01/27	450,000	458,802
<b>MD Howard County</b>	Columbia Vantage House Corp., Series 2007 A,		



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5.250% 04/01/33

250,000

253,720

See Accompanying Notes to Financial Statements.

Colonial High Income Municipal Trust

May 31, 2007 (Unaudited)

**Municipal Bonds** (continued)

		<b>Par (\$)</b>	<b>Value (\$)</b>
<b>Health Care</b> (continued)			
<b>Continuing Care Retirement</b> (continued)			
<b>MD Westminster Economic Development Authority</b>			
	Carroll Lutheran Village, Inc., Series 2004 A:		
	5.875% 05/01/21	500,000	515,835
	6.250% 05/01/34	250,000	262,628
<b>MI Kentwood Economic Development Corp.</b>			
	Holland Home, Series 2006 A,		
	5.375% 11/15/36	1,000,000	1,017,400
<b>MI Meridian Economic Development Corp.</b>			
	Burcham Hills Retirement Center II, Series 2007 A-1,		
	5.250% 07/01/26	300,000	300,039
<b>MT Facility Finance Authority</b>			
	St. John's Lutheran Ministries, Inc., Series 2006 A,		
	6.125% 05/15/36	500,000	520,140
<b>NC Medical Care Commission</b>			
	United Methodist Retirement Homes, Inc., Series 2005 C,		
	5.500% 10/01/32	600,000	614,022
<b>NH Higher Educational &amp; Health Facilities Authority</b>			
	Rivermead at Peterborough, Series 1998:		
	5.625% 07/01/18	500,000	508,065
	5.750% 07/01/28	500,000	505,715
<b>NJ Economic Development Authority</b>			
	Lions Gate, Series 2005 A:		
	5.750% 01/01/25	205,000	211,974
	5.875% 01/01/37	830,000	857,166
	Lutheran Social Ministries, Series 2005,		
	5.100% 06/01/27	500,000	502,365
	Marcus L. Ward Home, Series 2004,		
	5.750% 11/01/24	750,000	799,282
	Seabrook Village, Inc., Series 2006,		
	5.250% 11/15/26	1,300,000	1,321,346
<b>OR Multnomah County Hospital Facilities Authority</b>			
	Terwilliger Plaza, Series 2006 A,		
	5.250% 12/01/36	350,000	355,145
<b>PA Bucks County Industrial Development Authority</b>			
	Ann's Choice, Inc., Series 2005 A,		
	6.125% 01/01/25	1,000,000	1,056,010
<b>PA Delaware County Authority</b>			
	Dunwoody Village, Series 2003 A,		
	5.375% 04/01/17	600,000	631,284
<b>PA Montgomery County Industrial Development Authority</b>			
	Whitemarsh Continuing Care Retirement Community,		
	Series 2005:		
	6.125% 02/01/28	250,000	263,785
	6.250% 02/01/35	750,000	790,440
<b>SC Jobs Economic Development Authority</b>			
	Wesley Commons, Series 2006:		
	5.125% 10/01/26	600,000	602,382
	5.300% 10/01/36	300,000	302,832
<b>TN Johnson City Health &amp; Educational Facilities</b>			
	Appalachian Christian Village, Series 2004 A,		
	6.250% 02/15/32	250,000	261,353

**Authority**

See Accompanying Notes to Financial Statements.

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Colonial High Income Municipal Trust

May 31, 2007 (Unaudited)

**Municipal Bonds** (continued)

		Par (\$)	Value (\$)
<b>Health Care</b> (continued)			
<b>Continuing Care Retirement</b> (continued)			
<b>TN Metropolitan Government Nashville &amp; Davidson County</b>	Blakeford at Green Hills, Series 1998, 5.650% 07/01/24	600,000	603,996
<b>TN Shelby County Health Educational &amp; Housing Facilities Board</b>	Germantown Village, Series 2003 A, 7.250% 12/01/34	450,000	459,063
	Trezevant Manor, Series 2006 A: 5.625% 09/01/26	1,000,000	1,017,560
	5.750% 09/01/37	350,000	357,000
<b>TX Abilene Health Facilities Development Corp.</b>	Sears Methodist Retirement Center: Series 1998 A, 5.900% 11/15/25	1,000,000	1,010,490
	Series 2003 A, 7.000% 11/15/33	500,000	539,510
<b>TX Health Facilities Development Corp. of Central Texas, Inc.</b>	Legacy at Willow Bend, Series 2006 A, 5.750% 11/01/36	800,000	825,152
	Village at Gleannloch Farms, Series 2006 A, 5.500% 02/15/27	750,000	768,623
<b>TX Houston Health Facilities Development Corp.</b>	Buckingham Senior Living Community, Inc., Series 2004 A, 7.125% 02/15/34	500,000	551,070
<b>TX Tarrant County Cultural Education Facilities</b>	Northwest Senior Housing-Edgemere, Series 2006 A, 6.000% 11/15/36	750,000	794,303
<b>VA Fairfax County Economic Development Authority</b>	Goodwin House Inc., Series 2007, 5.125% 10/01/37	1,000,000	1,015,570
<b>VA Suffolk Industrial Development Authority</b>	Lake Prince Center, Series 2006, 5.300% 09/01/31	500,000	506,775
<b>VA Virginia Beach Development Authority</b>	Westminster-Canterbury of Hampton, Series 2005: 5.250% 11/01/26	250,000	255,785
	5.375% 11/01/32	300,000	307,401
<b>VA Winchester Industrial Development Authority</b>	Westminster-Canterbury, Series 2005 A, 5.300% 01/01/35	750,000	761,648
<b>WI Health &amp; Educational Facilities Authority</b>	Clement Manor, Series 1998, 5.750% 08/15/24	1,300,000	1,317,251
	Eastcastle Place, Inc., Series 2004, 6.125% 12/01/34	350,000	356,370
	Milwaukee Catholic Home, Series 2006, 5.000% 07/01/26	500,000	508,010
	Three Pillars Senior Living Communities, Series 2003, 5.750% 08/15/26	500,000	525,190

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Colonial High Income Municipal Trust

May 31, 2007 (Unaudited)

**Municipal Bonds** (continued)

		Par (\$)	Value (\$)
<b>Health Care</b> (continued)			
<b>Continuing Care Retirement</b> (continued)			
	United Lutheran Program for the Aging, Series 1998,		
	5.700% 03/01/28	1,000,000	1,008,970
<b>Continuing Care Retirement Total</b>			<b>42,496,183</b>
<b>Health Services 1.7%</b>			
<b>CO Health Facilities Authority</b>			
	National Jewish Medical & Research Center: Series 1998 B, 5.375% 01/01/29	750,000	755,528
	Series 1998, 5.375% 01/01/23	330,000	332,115
<b>MA Development Finance Agency</b>			
	Boston Biomedical Research Institute, Series 1999: 5.650% 02/01/19	200,000	207,230
	5.750% 02/01/29	450,000	464,949
<b>MA Health &amp; Educational Facilities Authority</b>			
	Civic Investments, Inc., Series 2002 A, 9.000% 12/15/15	1,000,000	1,206,680
<b>MN Minneapolis &amp; St. Paul Housing &amp; Redevelopment Authority</b>			
	Healthpartners, Series 2003, 6.000% 12/01/21	500,000	538,365
<b>Health Services Total</b>			<b>3,504,867</b>
<b>Hospitals 16.6%</b>			
<b>AR Conway Health Facilities Board</b>			
	Conway Regional Medical Center: Series 1999 A, 6.400% 08/01/29	425,000	449,306
	Series 1999 B, 6.400% 08/01/29	1,000,000	1,057,190
<b>CA Turlock</b>			
	Emanuel Medical Center, Inc., Series 2004, 5.375% 10/15/34	1,500,000	1,551,045
<b>CO Health Facilities Authority</b>			
	Vail Valley Medical Center, Series 2004, 5.000% 01/15/20	750,000	762,315
<b>FL South Lake County Hospital District</b>			
	South Lake Hospital, Inc., Series 2003, 6.375% 10/01/34	500,000	546,810
<b>FL Tampa</b>			
	H. Lee Moffitt Cancer Center, Series 1999 A, 5.750% 07/01/29	2,000,000	2,065,720
<b>FL West Orange Health Care District</b>			
	Series 2001 A, 5.650% 02/01/22	525,000	547,670
<b>IL Health Facilities Authority</b>			
	Thorek Hospital & Medical Center, Series 1998, 5.250% 08/15/18	600,000	606,468

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<b>IL Southwestern Development Authority</b>	Anderson Hospital:		
	Series 1999,		
	5.500% 08/15/20	225,000	230,459
	Series 2006,		
	5.125% 08/15/36	1,000,000	1,014,050

See Accompanying Notes to Financial Statements.

Colonial High Income Municipal Trust

May 31, 2007 (Unaudited)

**Municipal Bonds** (continued)

		<b>Par (\$)</b>	<b>Value (\$)</b>
<b>Health Care</b> (continued)			
<b>Hospitals</b> (continued)			
<b>IN Health &amp; Educational Facility Financing Authority</b>	Schneck Memorial, Series 2006 A, 5.250% 02/15/36	500,000	515,100
<b>IN Health Facility Financing Authority</b>	Community Foundation of Northwest Indiana, Inc., Series 2004 A, 6.000% 03/01/34	575,000	613,370
<b>KS Salina Hospital Revenue</b>	Salina Regional Health Center, Inc., Series 2005 A, 4.625% 10/01/31	600,000	575,424
<b>KS University Hospital Authority</b>	Series 2006: 4.500% 09/01/32 5.000% 09/01/36	500,000 1,000,000	477,445 1,013,980
<b>LA Public Facilities Authority</b>	Touro Infirmary, Series 1999 A, 5.625% 08/15/29	450,000	460,872
<b>MA Health &amp; Educational Facilities Authority</b>	Jordan Hospital, Series 2003 E, 6.750% 10/01/33	500,000	547,240
<b>MD Health &amp; Higher Educational Facilities Authority</b>	Adventist Health Care, Series 2003 A: 5.000% 01/01/16 5.750% 01/01/25	400,000 600,000	406,484 634,596
<b>MI Dickinson County</b>	Dickinson County Health Care System, Series 1999, 5.700% 11/01/18	750,000	768,465
<b>MI Hospital Finance Authority</b>	Garden City Hospital, Series 2007, 5.000% 08/15/38	750,000	730,297
<b>MN St. Paul Housing &amp; Redevelopment Authority</b>	HealthEast, Inc., Series 2001 A, 5.700% 11/01/15	1,000,000	1,024,900
<b>MN Washington County Housing &amp; Redevelopment Authority</b>	HealthEast, Inc., Series 1998, 5.250% 11/15/12	1,300,000	1,329,497
<b>MO Cape Girardeau County Industrial Development Authority</b>	Southeast Missouri Hospital Association, Series 2003, 5.000% 06/01/27	950,000	962,692
<b>MO Saline County Industrial Development Authority</b>	John Fitzgibbon Memorial Hospital, Series 2005, 5.625% 12/01/35 Stanly Memorial Hospital, Series 1999,	1,250,000	1,261,912



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<b>NC Medical Care Commission</b>			
	6.375% 10/01/29	1,915,000	2,015,154
<b>NH Higher Educational &amp; Health Facilities Authority</b>			
	Catholic Medical Center, Series 2002 A, 6.125% 07/01/32	50,000	53,663

See Accompanying Notes to Financial Statements.

Colonial High Income Municipal Trust

May 31, 2007 (Unaudited)

**Municipal Bonds** (continued)

		Par (\$)	Value (\$)
<b>Health Care</b> (continued)			
<b>Hospitals</b> (continued)			
	Littleton Hospital Association, Inc.: Series 1998 A,		
	6.000% 05/01/28	625,000	640,319
	Series 1998 B,		
	5.900% 05/01/28	780,000	797,035
	The Memorial Hospital at North Conway, Series 2006,		
	5.250% 06/01/36	800,000	817,264
<b>NY Dormitory Authority</b>			
	Mount Sinai Hospital: Series 2000 C,		
	5.500% 07/01/26	850,000	860,557
	Series 2000,		
	5.500% 07/01/26	400,000	406,072
<b>OH Highland County Joint Township</b>			
	Series 1999, 6.750% 12/01/29	905,000	942,159
<b>OH Lakewood Hospital Improvement District</b>			
	Lakewood Hospital Association, Series 2003, 5.500% 02/15/14	600,000	634,182
<b>OH Miami County Hospital Facilities Authority</b>			
	Upper Valley Medical Center, Inc., Series 2006, 5.250% 05/15/18	450,000	470,925
<b>OH Sandusky County</b>			
	Memorial Hospital, Series 1998, 5.150% 01/01/10	250,000	250,528
<b>SC Jobs Economic Development Authority</b>			
	Bon Secours-St. Francis Medical Center, Series 2002,		
	5.500% 11/15/23	1,750,000	1,822,625
<b>SC Lexington County Health Services</b>			
	Lexington Medical Center, Series 2003, 5.500% 11/01/23	750,000	785,835
<b>SD Health &amp; Educational Facilities Authority</b>			
	Sioux Valley Hospital & Health System, Series 2004 A,		
	5.250% 11/01/34	800,000	833,352
<b>VT Educational &amp; Health Buildings Finance Agency</b>			
	Brattleboro Memorial Hospital, Series 1998, 5.375% 03/01/28	1,075,000	1,076,311
<b>WI Health &amp; Educational Facilities Authority</b>			
	Aurora Health Care, Inc., Series 2003, 6.400% 04/15/33	525,000	577,474
	Fort HealthCare, Inc., Series 2004,		

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5.750% 05/01/29

1,000,000

1,077,240

**Hospitals Total**

**34,214,002**

**Intermediate Care Facilities 0.6%**

**IL Development Finance Authority**

Hoosier Care, Inc., Series 1999 A,  
7.125% 06/01/34

1,170,000

1,202,737

**IN Health Facilities Financing  
Authority**

Hoosier Care, Inc., Series 1999 A,  
7.125% 06/01/34

150,000

154,197

**Intermediate Care Facilities Total**

**1,356,934**

See Accompanying Notes to Financial Statements.

Colonial High Income Municipal Trust

May 31, 2007 (Unaudited)

**Municipal Bonds** (continued)

		Par (\$)	Value (\$)
<b>Health Care</b> (continued)			
<b>Nursing Homes 7.2%</b>			
<b>AK Juneau</b>	St. Ann's Care Center, Inc., Series 1999,		
	6.875% 12/01/25	1,180,000	1,176,932
<b>CO Health Facilities Authority</b>	American Housing Foundation I, Inc., Series 2003 A,		
	8.500% 12/01/31	455,000	481,258
	Evangelical Lutheran Good Samaritan Foundation,		
	Series 2005,		
	5.000% 06/01/35	375,000	377,974
<b>Greystone Midwest Junior Lien</b>	7.148% 08/01/36(c)	1,032,236	925,792
<b>IA Finance Authority</b>	Care Initiatives, Series 1998 B:		
	5.750% 07/01/18	550,000	566,649
	5.750% 07/01/28	1,475,000	1,509,028
<b>IA Marion</b>	Health Care Facilities Revenue, Series 2003,		
	6.500% 01/01/29(d)		
	(8.000% 01/01/09)	575,000	645,972
<b>MA Development Finance Agency</b>	AHF/Woodlawn Manor, Inc.:		
	Series 2000 A,		
	7.750% 12/01/27(e)	1,509,135	603,654
	Series 2000 B,		
	10.250% 06/01/27(c)(e)	475,907	14,277
	Alliance Health Care Facilities, Series 1999 A,		
	7.100% 07/01/32	1,250,000	1,275,475
<b>MN Sartell</b>	Foundation for Health Care, Series 1999 A,		
	6.625% 09/01/29	1,145,000	1,177,713
<b>NJ Economic Development Authority</b>	Hebrew Old Age Center, Series 2006,		
	5.375% 11/01/36	500,000	507,135
<b>NY Amherst Industrial Development Agency</b>	Beechwood Health Care Center, Series 2007,		
	5.200% 01/01/40	500,000	500,840
<b>PA Chester County Industrial Development Authority</b>	Pennsylvania Nursing Home, Series 2002,		
	8.500% 05/01/32	1,545,000	1,613,289
<b>PA Washington County Industrial Development Authority</b>	AHF Project, Series 2003,		
	7.750% 01/01/29	1,210,000	1,359,266
<b>TN Metropolitan Government Nashville &amp; Davidson County</b>	AHF Project, Series 2003,	1,140,000	1,280,630

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<b>Health &amp; Education Board</b>		7.750% 01/01/29		
<b>WI Health &amp; Educational Facilities Authority</b>		Series 2003 A, 8.500% 11/01/33	900,000	907,857
<b>Nursing Homes Total</b>				<b>14,923,741</b>
<b>Health Care Total</b>				<b>96,495,727</b>

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Colonial High Income Municipal Trust

May 31, 2007 (Unaudited)

**Municipal Bonds** (continued)

		<b>Par (\$)</b>	<b>Value (\$)</b>
<b>Housing 15.0%</b>			
<b>Assisted Living/Senior 3.9%</b>			
<b>DE Kent County</b>	Heritage at Dover, Series 1999, AMT, 7.625% 01/01/30	1,615,000	1,576,708
<b>GA Columbus Housing Authority</b>	The Gardens at Calvary Project, Series 1999, 7.000% 11/15/19	470,000	464,604
<b>GA Jefferson Development Authority</b>	Sumner Smith Facility, Series 2007 A, AMT, 5.875% 08/01/38	750,000	748,335
<b>MN Rochester</b>	Madonna Meadows, Series 2007 A, 5.300% 04/01/37	750,000	744,383
<b>MN Roseville</b>	Care Institute, Inc., Series 1993, 7.750% 11/01/23	1,740,000	1,540,248
<b>NC Medical Care Commission</b>	DePaul Community Facilities, Inc., Series 1999, 7.625% 11/01/29	1,500,000	1,565,340
<b>NY Huntington Housing Authority</b>	Gurwin Jewish Senior Center, Series 1999 A: 5.875% 05/01/19 6.000% 05/01/29	700,000 775,000	720,202 799,374
<b>Assisted Living/Senior Total</b>			<b>8,159,194</b>
<b>Multi-Family 8.1%</b>			
<b>DC Housing Finance Agency</b>	Henson Ridge, Series 2004 E, AMT, Insured: FHA 5.100% 06/01/37	1,000,000	1,013,290
<b>DE Wilmington</b>	Electra Arms Senior Association, Series 1998, AMT, 6.250% 06/01/28	890,000	879,747
<b>FL Broward County Housing Finance Authority</b>	Chaves Lake Apartments Ltd., Series 2000 A, AMT, 7.500% 07/01/40	750,000	792,735
<b>FL Capital Trust Agency</b>	Atlantic Housing Foundation, Inc., Series 2005 C, 5.875% 01/01/28	775,000	806,674
<b>FL Clay County Housing Finance Authority</b>	Breckenridge Commons Ltd., Series 2000 A, AMT, 7.450% 07/01/40	720,000	757,130
<b>MA Housing Finance Agency</b>	Series 2005 E, AMT, 5.000% 12/01/28	500,000	507,810
<b>MN Minneapolis Student Housing</b>	Riverton Community Housing, Inc., Series 2006 A, 5.700% 08/01/40	750,000	754,575
<b>MN Washington County Housing &amp; Redevelopment Authority</b>	Cottages of Aspen, Series 1992, AMT, 9.250% 06/01/22	930,000	931,600

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**MN White Bear Lake**

Birch Lake Townhomes:

Series 1989 A, AMT,  
10.250% 07/15/19

2,200,000

2,086,700

Series 1989 B,

AMT, (a) 07/15/19

687,000

206,203

See Accompanying Notes to Financial Statements.

Colonial High Income Municipal Trust

May 31, 2007 (Unaudited)

**Municipal Bonds** (continued)

		Par (\$)	Value (\$)
<b>Housing</b> (continued)			
<b>Multi-Family</b> (continued)			
<b>NC Durham Housing Authority</b>	Magnolia Pointe Apartments, Series 2005, AMT, 5.650% 02/01/38	1,500,000	1,486,470
<b>NC Medical Care Commission</b>	ARC Project, Series 2004 A, 5.800% 10/01/34	750,000	805,958
<b>NM Mortgage Finance Authority</b>	Series 2005 E, AMT, Insured: FHA 4.800% 09/01/40	1,250,000	1,213,525
<b>NY New York City Housing Development Corp.</b>	Series 2005 F-1, 4.650% 11/01/25	1,000,000	1,011,080
<b>OH Montgomery County</b>	Heartland of Centerville LLC, Series 2005, AMT, Insured: FHLMC 4.950% 11/01/35	500,000	503,675
<b>Resolution Trust Corp.</b>	Pass-Through Certificates, Series 1993 A, 8.500% 12/01/16(f)	546,075	541,526
<b>TX Department of Housing &amp; Community Affairs</b>	Pebble Brooks Apartments, Series 1998, AMT, Guarantor: FNMA 5.500% 12/01/18	1,000,000	1,027,560
<b>TX El Paso County Housing Finance Corp.</b>	American Village Communities: Series 2000 C, 8.000% 12/01/32	370,000	381,059
	Series 2000 D, 10.000% 12/01/32	400,000	419,092
<b>WA Seattle Housing Authority</b>	High Rise Rehabilitation Phase I LP, Series 2005, AMT, Insured: FSA 5.000% 11/01/25	500,000	503,735
<b>Multi-Family Total</b>			<b>16,630,144</b>
<b>Single-Family 3.0%</b>			
<b>MA Housing Finance Agency</b>	Series 2005 B, 5.000% 06/01/30	500,000	510,355
<b>MN Minneapolis St. Paul Housing Finance Board</b>	Series 2006, AMT, Guarantor: GNMA 5.000% 12/01/38	994,763	998,165
<b>ND Housing Finance Agency</b>	Series 2006 A, AMT, 4.850% 07/01/21	1,240,000	1,250,354
<b>OK Housing Finance Agency</b>	Series 2006 C, AMT, Guarantor: GNMA 5.000% 09/01/26	1,420,000	1,431,346
<b>PA Pittsburgh Urban Redevelopment Authority</b>	Series 2006 C, Guarantor: GNMA 4.800% 04/01/28	2,000,000	1,994,660



	<b>Single-Family Total</b>	<b>6,184,880</b>
<b>Housing Total</b>		<b>30,974,218</b>

See Accompanying Notes to Financial Statements.

Colonial High Income Municipal Trust

May 31, 2007 (Unaudited)

**Municipal Bonds** (continued)

		Par (\$)	Value (\$)
<b>Industrials 7.6%</b>			
<b>Chemicals 0.3%</b>			
<b>TX Brazos River Harbor Navigation District</b>	Dow Chemical Co., Series 2002 B-2, 4.950% 05/15/33	600,000	603,756
<b>Chemicals Total</b>			<b>603,756</b>
<b>Food Products 1.1%</b>			
<b>GA Cartersville Development Authority</b>	Anheuser Busch Companies, Inc., Series 2002, AMT, 5.950% 02/01/32	1,000,000	1,069,730
<b>MI Strategic Fund</b>	Imperial Holly Corp., Series 1998 A, 6.250% 11/01/15	1,250,000	1,285,312
<b>Food Products Total</b>			<b>2,355,042</b>
<b>Forest Products &amp; Paper 2.8%</b>			
<b>AL Camden Industrial Development Board</b>	Weyerhaeuser Co., Series 2003 B, AMT, 6.375% 12/01/24	550,000	600,606
<b>AL Courtland Industrial Development Board</b>	International Paper Co., Series 2003 B, AMT, 6.250% 08/01/25	1,000,000	1,079,290
<b>AL Phenix City Industrial Development Board</b>	Meadwestvaco Corp., Series 2002 A, AMT, 6.350% 05/15/35	550,000	586,861
<b>AR Camden Environmental Improvement Authority</b>	International Paper Co., Series 2004 A, AMT, 5.000% 11/01/18	250,000	254,170
<b>GA Rockdale County Development Authority</b>	Visy Paper, Inc., Series 1993, AMT, 7.500% 01/01/26	1,800,000	1,801,206
<b>MS Lowndes County</b>	Weyerhaeuser Co., Series 1992 B, 6.700% 04/01/22	850,000	1,020,909
<b>VA Bedford County Industrial Development Authority</b>	Nekoosa Packaging Corp., Series 1998, AMT, 5.600% 12/01/25	400,000	403,892
<b>Forest Products &amp; Paper Total</b>			<b>5,746,934</b>
<b>Manufacturing 0.8%</b>			
<b>IL Will-Kankakee Regional Development Authority</b>	Flanders Corp., Series 1997, AMT, 6.500% 12/15/17	695,000	705,661
<b>MS Business Finance Corp.</b>	Northrop Grumman Ship Systems, Inc., Series 2006, 4.550% 12/01/28	1,000,000	984,630
<b>Manufacturing Total</b>			<b>1,690,291</b>
<b>Metals &amp; Mining 0.6%</b>			

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<b>NV Department of Business &amp; Industry</b>	Wheeling-Pittsburgh Steel Corp., Series 1999 A, AMT, 8.000% 09/01/14(f)	770,000	798,837
<b>VA Greensville County Industrial Development Authority</b>	Wheeling-Pittsburgh Steel Corp., Series 1999 A, AMT, 7.000% 04/01/14	385,000	384,742
<b>Metals &amp; Mining Total</b>			<b>1,183,579</b>

See Accompanying Notes to Financial Statements.

Colonial High Income Municipal Trust

May 31, 2007 (Unaudited)

**Municipal Bonds** (continued)

		Par (\$)	Value (\$)
<b>Industrials</b> (continued)			
<b>Oil &amp; Gas 1.2%</b>			
<b>NJ Middlesex County Pollution Control Authority</b>	Amerada Hess Corp., Series 2004, 6.050% 09/15/34	285,000	307,213
<b>TX Gulf Coast Industrial Development Authority</b>	Citgo Petroleum, Series 1998, AMT, 8.000% 04/01/28	500,000	567,595
<b>VI Virgin Islands Public Finance Authority</b>	Hovensa LLC: Series 2003, AMT, 6.125% 07/01/22 Series 2004, AMT, 5.875% 07/01/22	525,000 600,000	572,187 647,652
<b>VI Virgin Islands</b>	Hovensa LLC, Series 2002, AMT, 6.500% 07/01/21	375,000	419,989
<b>Oil &amp; Gas Total</b>			<b>2,514,636</b>
<b>Other Industrial Development Bonds 0.8%</b>			
<b>NJ Economic Development Authority</b>	GMT Realty LLC, Series 2006 B, AMT, 6.875% 01/01/37	1,500,000	1,627,650
<b>Other Industrial Development Bonds Total</b>			<b>1,627,650</b>
<b>Industrials Total</b>			<b>15,721,888</b>
<b>Other 23.7%</b>			
<b>Other 0.3%</b>			
<b>PR Commonwealth of Puerto Rico Government Development Bank</b>	Series 2006 B, 5.000% 12/01/15	700,000	739,277
<b>Other Total</b>			<b>739,277</b>
<b>Pool/Bond Bank 0.8%</b>			
<b>MI Municipal Bond Authority</b>	Series 2001 A, Insured: AMBAC 5.375% 11/01/17	750,000	794,775
<b>OH Cleveland Cuyahoga County Port Authority</b>	Columbia National Group, Inc., Series 2005 D, AMT, 5.000% 05/15/20	775,000	780,828
<b>Pool/Bond Bank Total</b>			<b>1,575,603</b>
<b>Refunded/Escrowed(g) 20.1%</b>			
<b>CA ABAG Finance Authority for Nonprofit Corps.</b>	Eskaton Gold River Lodge, Series 1998, Pre-refunded 11/15/08: 6.375% 11/15/15	570,000	596,477

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	6.375% 11/15/28	550,000	581,488
<b>CA Golden State Tobacco Securitization Corp.</b>	Series 2003 A-1, Pre-refunded 06/01/13, 6.250% 06/01/33	1,800,000	1,970,010
	Series 2003 B, Pre-refunded 06/01/13, 5.500% 06/01/43	750,000	814,485
<b>CA Orange County Community Facilities District</b>	Ladera Ranch, Series 1999 1, Pre-refunded 08/15/09, 6.700% 08/15/29	500,000	541,195

See Accompanying Notes to Financial Statements.

Colonial High Income Municipal Trust

May 31, 2007 (Unaudited)

**Municipal Bonds** (continued)

		Par (\$)	Value (\$)
<b>Other</b> (continued)			
<b>Refunded/Escrowed(g)</b> (continued)			
<b>CA Statewide Communities Development Authority</b>	Eskaton Village - Grass Valley, Series 2000, Pre-refunded 11/15/10,		
	8.250% 11/15/31	985,000	1,123,215
<b>CO Denver City &amp; County Airport</b>	Series 1992 C, AMT: Escrowed to Maturity,		
	6.125% 11/15/25	2,280,000	2,712,425
	Unrefunded Balance,		
	6.125% 11/15/25	2,840,000	2,845,112
<b>CO E-470 Public Highway Authority</b>	Series 2000 B, Pre-refunded 09/01/10, (a) 09/01/35	8,750,000	1,176,000
<b>CO Health Facilities Authority</b>	Volunteers of America Care Facilities, Series 1998 A:		
	Escrowed to Maturity,		
	5.450% 07/01/08	75,000	75,548
	Pre-refunded 07/01/08,		
	5.750% 07/01/20	865,000	899,799
<b>FL Capital Projects Finance Authority</b>	Glenridge on Palmer Ranch, Series 2002 A, Pre-refunded 06/01/12,		
	8.000% 06/01/32	750,000	884,452
<b>FL Lee County Industrial Development Authority</b>	Shell Point Village, Series 1999 A, Pre-refunded 11/15/09,		
	5.500% 11/15/29	600,000	629,304
<b>FL Orange County Health Facilities Authority</b>	Orlando Regional Health Care System, Series 2002, Pre-refunded 12/01/12,		
	5.750% 12/01/32	200,000	217,332
<b>GA Forsyth County Hospital Authority</b>	Georgia Baptist Health Care System, Series 1998, Escrowed to Maturity,		
	6.000% 10/01/08	330,000	335,148
<b>IA Finance Authority</b>	Care Initiatives, Series 1996, Pre-refunded 07/01/11,	935,000	1,126,544

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9.250% 07/01/25

## ID Health Facilities Authority

IHC Hospitals, Inc., Series 1992,  
Escrowed to Maturity,

6.650% 02/15/21

1,750,000

2,190,685

## IL Development Finance Authority

Latin School of Chicago, Series 1998,  
Pre-refunded 08/01/08,

5.650% 08/01/28

230,000

234,692

## IL Health Facilities Authority

Lutheran Senior Ministries, Series 2001 A,  
Pre-refunded 08/15/11,

7.375% 08/15/31

900,000

1,024,614

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Colonial High Income Municipal Trust

May 31, 2007 (Unaudited)

**Municipal Bonds** (continued)

		Par (\$)	Value (\$)
<b>Other</b> (continued)			
<b>Refunded/Escrowed(g)</b> (continued)			
	Swedish American Hospital, Series 2000, Pre-refunded 05/15/10,		
	6.875% 11/15/30	500,000	540,720
<b>IL University of Illinois</b>	Series 2001 A, Pre-refunded 08/15/11, Insured: AMBAC		
	5.500% 08/15/17	685,000	727,771
<b>KS Manhattan</b>	Meadowlark Hills Retirement Home, Series 1999 A, Pre-refunded 05/15/09,		
	6.375% 05/15/20	650,000	687,343
<b>MA Development Finance Agency</b>	Western New England College, Series 2002, Pre-refunded 12/01/12,		
	6.125% 12/01/32	300,000	334,080
<b>MA Health &amp; Educational Facilities Authority</b>	Milford-Whitinsville Regional Hospital, Series 2002 D, Pre-refunded 07/15/12,		
	6.350% 07/15/32	1,000,000	1,114,010
<b>MN Robbinsdale Economic Development Authority</b>	Series 1999 A, Pre-refunded 01/01/10, 6.875% 01/01/26	500,000	536,430
<b>NH Health &amp; Educational Facilities Authority</b>	Catholic Medical Center, Series 2002 A, Pre-refunded 7/01/12,		
	6.125% 07/01/32	350,000	385,903
<b>NJ Economic Development Authority</b>	Seabrook Village, Inc., Series 2000 A, Pre-refunded 11/15/10,		
	8.250% 11/15/30	925,000	1,058,681
<b>NJ Tobacco Settlement Financing Corp</b>	Series 2003, Pre-refunded 06/01/13, 6.750% 06/01/39	1,500,000	1,725,015
<b>NM Red River Sports Facility</b>	Red River Ski Area, Series 1998, Escrowed to Maturity,		
	6.450% 06/01/07	215,000	215,000
<b>NV Henderson</b>	St. Rose Dominican Hospital, Series 1998 A, Pre-refunded 07/01/08:		
	5.375% 07/01/26	385,000	395,268
	5.375% 07/01/26	115,000	117,684
<b>NY Convention Center Operating Corp.</b>	Yale Building Project, Series 2003, Escrowed to Maturity,		



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	(a) 06/01/08	1,700,000	1,638,205
<b>NY Dormitory Authority</b>	North Shore-Long Island Jewish Medical Center, Series 2003, Pre-refunded 05/01/13,		
	5.500% 05/01/33	300,000	324,804
<b>NY New York City</b>	Series 1997 H, Pre-refunded: 08/01/07,		
	6.000% 08/01/17	915,000	927,407

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Colonial High Income Municipal Trust

May 31, 2007 (Unaudited)

**Municipal Bonds** (continued)

		Par (\$)	Value (\$)
<b>Other</b> (continued)			
<b>Refunded/Escrowed(g)</b>			
(continued)			
<b>PA Delaware County Authority</b>	Mercy Health Corp., Series 1996, Escrowed to Maturity:		
	6.000% 12/15/16	1,400,000	1,477,294
	6.000% 12/15/26	1,000,000	1,055,210
<b>PA Lancaster Industrial Development Authority</b>	Garden Spot Village, Series 2000 A, Pre-refunded 05/01/10, 7.625% 05/01/31	500,000	555,575
<b>PR Commonwealth of Puerto Rico Public Finance Corp.</b>	Series 2002 E, Escrowed to Maturity, 6.000% 08/01/26	155,000	190,064
<b>TN Shelby County Health, Educational &amp; Housing Facilities Board</b>	Open Arms Development Centers: Series 1992 A,		
	Pre-refunded 08/01/07,		
	9.750% 08/01/19	750,000	792,480
	Series 1992 C,		
	Pre-refunded 08/01/07,		
	9.750% 08/01/19	730,000	771,347
<b>TX Board of Regents</b>	University of Texas, Series 2001 B, Escrowed to Maturity,		
	5.375% 08/15/18	650,000	687,466
<b>TX Tyler Health Facilities Development Corp.</b>	Mother Frances Hospital, Series 2001, Pre-refunded 07/01/12,		
	6.000% 07/01/31	1,000,000	1,088,260
<b>VT Educational &amp; Health Buildings Financing Agency</b>	Norwich University, Series 1998, Pre-refunded 07/01/08,		
	5.500% 07/01/21	1,500,000	1,541,970
<b>WI Health &amp; Educational Facilities Authority</b>	Attic Angel Obligated Group, Series 1998, Pre-refunded 11/17/08,		
	5.750% 11/15/27	1,000,000	1,044,240
	Wheaton Franciscan Services, Series 2002, Pre-refunded 02/15/12,		
	5.750% 08/15/30	600,000	651,456
<b>WV Hospital Finance Authority</b>	Charleston Area Medical Center, Series 2000,		

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Pre-refunded 09/01/10,			
	6.750% 09/01/30	805,000	881,692
<b>Refunded/Escrowed Total</b>			<b>41,443,900</b>
<b>Tobacco 2.5%</b>			
<b>CA County Tobacco</b>	Series 2006,		
<b>Securitization Agency</b>	(a) 06/01/46	6,500,000	545,285
<b>CA Golden State Tobacco</b>	Series 2007 A-1,		
<b>Securitization Corp.</b>	5.750% 06/01/47	1,150,000	1,216,769

See Accompanying Notes to Financial Statements.

Colonial High Income Municipal Trust

May 31, 2007 (Unaudited)

**Municipal Bonds** (continued)

		Par (\$)	Value (\$)
<b>Other</b> (continued)			
<b>Tobacco</b> (continued)			
<b>CA Tobacco Securitization Authority</b>	San Diego County Tobacco, Series 2006, (a) 06/01/46	8,520,000	814,853
<b>NJ Tobacco Settlement Financing Corp.</b>	Series 2007 1C, (a) 06/01/41	5,000,000	726,450
<b>NY Nassau County Tobacco Settlement Corp.</b>	Series 2006, (a) 06/01/60	15,000,000	551,400
<b>NY TSASC, Inc.</b>	Series 2006 1, 5.125% 06/01/42	1,000,000	1,019,130
<b>WA Tobacco Settlement Authority</b>	Series 2002, 6.625% 06/01/32	250,000	278,025
<b>Tobacco Total</b>			<b>5,151,912</b>
<b>Other Total</b>			<b>48,910,692</b>
<b>Other Revenue 4.0%</b>			
<b>Hotels 1.6%</b>			
<b>MD Economic Development Corp.</b>	Chesapeake Bay Conference Center, Series 2006 A, 5.000% 12/01/31	1,000,000	1,002,240
<b>NJ Middlesex County Improvement Authority</b>	Heldrich Associates LLC: Series 2005 B,  6.250% 01/01/37 Series 2005 C,  8.750% 01/01/37	1,250,000  900,000	1,318,438  910,278
<b>Hotels Total</b>			<b>3,230,956</b>
<b>Recreation 2.2%</b>			
<b>CA Agua Caliente Band Cahuilla Indians</b>	Series 2003, 5.600% 07/01/13(f)	1,000,000	1,041,460
<b>CA Cabazon Band Mission Indians</b>	Series 2004: 8.375% 10/01/15 8.750% 10/01/19	240,000 895,000	252,710 941,925
<b>CT Mashantucket Western Pequot</b>	Series 1999 B, (a) 09/01/16	1,000,000	625,520
<b>CT Mohegan Tribe Gaming Authority</b>	Series 2001,		

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	6.250% 01/01/31	275,000	291,000
<b>NY Liberty Development Corp.</b>	National Sports Museum, Series 2006 A,		
	6.125% 02/15/19(g)	600,000	625,164
<b>OR Cow Creek Band Umpqua Tribe of Indians</b>	Series 2006 C,		
	5.625% 10/01/26	800,000	812,000
<b>Recreation Total</b>			<b>4,589,779</b>

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Colonial High Income Municipal Trust

May 31, 2007 (Unaudited)

**Municipal Bonds** (continued)

		Par (\$)	Value (\$)
<b>Other Revenue</b> (continued)			
<b>Retail 0.2%</b>			
<b>OH Lake County</b>	North Madison Properties, Series 1993,		
	8.819% 09/01/11	530,000	531,632
<b>Retail Total</b>			<b>531,632</b>
<b>Other Revenue Total</b>			<b>8,352,367</b>
<b>Resource Recovery 2.6%</b>			
<b>Disposal 1.0%</b>			
<b>CA Pollution Control Financing Authority</b>	Republic Services, Inc., Series 2002 C, AMT,		
	5.250% 06/01/23	500,000	525,125
<b>FL Lee County Solid Waste Systems</b>	Series 2006 A, AMT, Insured: AMBAC		
	5.000% 10/01/17	600,000	632,916
<b>UT Carbon County</b>	Laidlaw Environmental:		
	Series 1995 A, AMT,		
	7.500% 02/01/10	250,000	250,725
	Series 1997 A, AMT,		
	7.450% 07/01/17	500,000	510,995
<b>Disposal Total</b>			<b>1,919,761</b>
<b>Resource Recovery 1.6%</b>			
<b>MA Development Finance Agency</b>	Ogden Haverhill Associates, Series 1999 A, AMT,		
	6.700% 12/01/14	250,000	266,605
<b>MA Industrial Finance Agency</b>	Ogden Haverhill Associates, Series 1998 A, AMT:		
	5.500% 12/01/13	500,000	517,120
	5.600% 12/01/19	500,000	517,085
<b>PA Delaware County Industrial Development Authority</b>	American REF-Fuel Co., Series 1997 A,		
	6.200% 07/01/19	2,000,000	2,058,720
<b>Resource Recovery Total</b>			<b>3,359,530</b>
<b>Resource Recovery Total</b>			<b>5,279,291</b>
<b>Tax-Backed 25.3%</b>			
<b>Local Appropriated 1.1%</b>			
<b>CA Compton</b>	Civic Center & Capital Improvements, Series 1997 A,		
	5.500% 09/01/15	1,000,000	1,023,050
<b>SC Dorchester County School District No. 2</b>	Series 2004,		
	5.250% 12/01/29	650,000	682,429
	Series 2005,		

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**SC Newberry County School  
District**

5.000% 12/01/30	500,000	512,525
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**Local Appropriated Total**

**2,218,004**

**Local General Obligations 4.4%**

**CA Montebello Unified School**

Series 2001, Insured: FSA:

**District**

(a) 08/01/21	1,435,000	768,184
(a) 08/01/23	1,505,000	730,662

See Accompanying Notes to Financial Statements.

Colonial High Income Municipal Trust

May 31, 2007 (Unaudited)

**Municipal Bonds** (continued)

		<b>Par (\$)</b>	<b>Value (\$)</b>
<b>Tax-Backed</b> (continued)			
<b>Local General Obligations</b> (continued)			
<b>CO Northwest Metropolitan District No. 3</b>	Series 2005, 6.250% 12/01/35	500,000	528,285
<b>IL Chicago Board of Education</b>	Series 1997 A, Insured: AMBAC 5.250% 12/01/30(h)	3,000,000	3,076,440
<b>NJ Bergen County Improvement Authority</b>	Series 2005, 5.000% 11/15/24	1,210,000	1,322,591
<b>NY New York City</b>	Series 1997 A, 7.000% 08/01/07	595,000	597,945
	Series 1997 H, 6.000% 08/01/17	485,000	491,383
<b>TX Dallas County Flood Control District</b>	Series 2002, 7.250% 04/01/32	1,000,000	1,062,560
<b>TX Irving Independent School District</b>	Series 1997, Guarantor: PSFG (a) 02/15/18	1,000,000	629,460
<b>Local General Obligations Total</b>			<b>9,207,510</b>
<b>Special Non-Property Tax 6.1%</b>			
<b>CA San Diego Redevelopment Agency</b>	Series 2001, Insured: FSA: (a) 09/01/19 (a) 09/01/22	1,910,000 1,910,000	1,122,029 967,511
<b>IL Bolingbrook</b>	Sales Tax Revenue, Series 2005, (d) 01/01/24  (6.250% 01/01/08)	  750,000	  749,625
<b>IL Metropolitan Pier &amp; Exposition Authority</b>	Series 1993 A, Insured: FGIC (a) 06/15/16	10,000,000	6,810,600
<b>KS Wyandotte County</b>	Series 2005 B, 5.000% 12/01/20	325,000	336,141
	Series 2006, 4.875% 10/01/28	790,000	783,119
<b>NJ Economic Development Authority</b>	Cigarette Tax, Series 2004: 5.500% 06/15/31	150,000	158,064
	5.750% 06/15/29	1,000,000	1,074,240
<b>PR Commonwealth of Puerto Rico Highway &amp; Transportation Authority</b>	Series 2003 AA, Insured: MBIA 5.500% 07/01/18	500,000	563,255
<b>Special Non-Property Tax Total</b>			<b>12,564,584</b>
<b>Special Property Tax 10.7%</b>			



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<b>CA Carson Improvement Bond Act 1915</b>	Series 1992, 7.375% 09/02/22	35,000	35,312
<b>CA Huntington Beach Community Facilities District</b>	Series 2001-1, 6.450% 09/01/31	750,000	801,030

See Accompanying Notes to Financial Statements.

Colonial High Income Municipal Trust

May 31, 2007 (Unaudited)

**Municipal Bonds** (continued)

		Par (\$)	Value (\$)
<b>Tax-Backed</b> (continued)			
<b>Special Property Tax</b> (continued)			
<b>CA Lincoln Community Facilities District No. 2003-1</b>	Series 2004, 5.900% 09/01/24	455,000	513,436
<b>CA Oakdale Public Financing Authority</b>	Central City Redevelopment Project, Series 2004, 5.375% 06/01/33	1,375,000	1,434,812
<b>CA Orange County Improvement Bond Act 1915</b>	Phase IV, No. 01-1-B, Series 2003, 5.750% 09/02/33	500,000	515,565
<b>CA Placer Unified High School District</b>	Series 2000 A, Insured: FGIC (a) 08/01/19	1,700,000	1,003,493
<b>CA Redwood City Community Facilities District No. 1</b>	Series 2003 B, 5.950% 09/01/28	600,000	623,982
<b>CA Temecula Valley Unified School District No. 1</b>	Series 2003, 6.125% 09/01/33	400,000	408,736
<b>FL Ave Maria Stewardship Community District</b>	Series 2006 A, 5.125% 05/01/38	350,000	341,915
<b>FL Celebration Community Development District</b>	Series 2003 A, 6.400% 05/01/34	965,000	1,035,387
<b>FL Channing Park Development District</b>	Series 2007, 5.300% 05/01/38	600,000	578,262
<b>FL Colonial Country Club Community Development District</b>	Series 2003, 6.400% 05/01/33	715,000	770,942
<b>FL Double Branch Community Development District</b>	Series 2002 A, 6.700% 05/01/34	670,000	739,452
<b>FL Islands at Doral Southwest Community Development District</b>	Series 2003, 6.375% 05/01/35	375,000	406,665
<b>FL Lexington Oaks Community Development District</b>	Series 1998 A, 6.125% 05/01/19	325,000	325,985
	Series 2000 A, 7.200% 05/01/30	270,000	277,263
	Series 2002 A, 6.700% 05/01/33	250,000	271,937
<b>FL Oakmont Grove Community Development District</b>	Series 2007 A, 5.400% 05/01/38	500,000	489,235

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<b>FL Orlando</b>	Conroy Road Interchange, Series 1998 A:		
	5.500% 05/01/10	100,000	100,821
	5.800% 05/01/26	300,000	305,022
<b>FL Sarasota National</b>	Series 2003,		
<b>Community Development</b>	5.300% 05/01/39	1,200,000	1,168,428

See Accompanying Notes to Financial Statements.

Colonial High Income Municipal Trust

May 31, 2007 (Unaudited)

**Municipal Bonds** (continued)

		Par (\$)	Value (\$)
<b>Tax-Backed</b> (continued)			
<b>Special Property Tax</b> (continued)			
<b>FL Seven Oaks Community Development District II</b>	Series 2004 A, 5.875% 05/01/35	275,000	281,792
	Series 2004 B, 5.000% 05/01/09	650,000	648,687
<b>FL Stoneybrook Community Development District</b>	Series 1998 A, 6.100% 05/01/19	275,000	275,806
<b>FL Sweetwater Creek Community Development District</b>	Series 2007 A, 5.500% 05/01/38	300,000	299,274
<b>FL West Villages Improvement District</b>	Series 2006, 5.500% 05/01/37	750,000	741,277
<b>FL Westchester Community Development District No. 1</b>	Series 2003, 6.125% 05/01/35	425,000	445,532
<b>FL Westridge Community Development District</b>	Series 2005, 5.800% 05/01/37	1,250,000	1,255,150
<b>GA Atlanta</b>	Series 2005 A, AMT, 5.625% 01/01/16	600,000	617,100
<b>IL Annawan Tax Increment Revenue</b>	Patriot Renewable Fuels LLC, Series 2007, 5.625% 01/01/18	450,000	447,327
<b>IL Chicago</b>	Pilsen Redevelopment, Series 2004 B, 6.750% 06/01/22	450,000	485,244
<b>IL Du Page County Special Service Area No. 31</b>	Series 2006, 5.625% 03/01/36	250,000	260,393
<b>IL Lincolnshire Special Services Area No. 1</b>	Sedgebrook Project, Series 2004, 6.250% 03/01/34	500,000	526,825
<b>IL Plano Special Service Area No. 4</b>	Series 2005 5-B, 6.000% 03/01/35	2,000,000	2,007,100
<b>IL Volo Village Special Service Area No. 3</b>	Series 2006-1, 6.000% 03/01/36	750,000	764,190
<b>IN Portage</b>	Series 2006, 5.000% 07/15/23	300,000	304,596
<b>MI Pontiac Tax Increment Finance Authority</b>	Development Area No. 3, Series 2002, 6.375% 06/01/31	550,000	583,324

<b>Special Property Tax Total</b>		<b>22,091,297</b>
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**State Appropriated 2.8%**  
**CA Public Works Board**

Department of Mental Health, Coalinga State Hospital,			
Series 2004 A,			
5.500% 06/01/19		1,000,000	1,089,910

See Accompanying Notes to Financial Statements.

Colonial High Income Municipal Trust

May 31, 2007 (Unaudited)

**Municipal Bonds** (continued)

		Par (\$)	Value (\$)
<b>Tax-Backed</b> (continued)			
<b>State Appropriated</b> (continued)			
<b>LA Military Department</b>	Custody Receipts, Series 2006,		
	5.000% 08/01/24	1,500,000	1,547,775
<b>NY Urban Development Corp.</b>	Series 1995,		
	5.875% 01/01/21	1,000,000	1,159,600
<b>PR Commonwealth of Puerto Rico Public Finance Corp.</b>	Series 2002 E,		
	6.000% 08/01/26	1,645,000	1,940,672
<b>State Appropriated Total</b>			<b>5,737,957</b>
<b>State General Obligations 0.2%</b>			
<b>CA State</b>	Series 2003,		
	5.250% 02/01/23	380,000	418,992
<b>State General Obligations Total</b>			<b>418,992</b>
<b>Tax-Backed Total</b>			<b>52,238,344</b>
<b>Transportation 7.2%</b>			
<b>Air Transportation 4.1%</b>			
<b>CA Los Angeles Regional Airports Improvement Corp.</b>	LAXfuel Corp., Series 2001, AMT,		
	Insured: AMBAC		
	5.250% 01/01/23	750,000	772,095
<b>CO Denver City &amp; County Airport</b>	United Air Lines, Inc., Series 1992 A, AMT,		
	6.875% 10/01/32	1,000,000	1,027,680
<b>FL Capital Trust Agency</b>	Air Cargo-Orlando, Series 2003, AMT,		
	6.750% 01/01/32	500,000	536,985
<b>IN Indianapolis Airport Authority</b>	Fed Ex Corp., Series 2004, AMT,		
	5.100% 01/15/17	250,000	260,883
<b>NC Charlotte/Douglas International Airport</b>	US Airways, Inc.:		
	Series 1998, AMT,		
	5.600% 07/01/27	250,000	254,283
	Series 2000, AMT,		
	7.750% 02/01/28	750,000	808,365
<b>NJ Economic Development Authority</b>	Continental Airlines, Inc.:		
	Series 1999, AMT,		
	6.250% 09/15/29	485,000	501,553
	Series 2003, AMT,		
	9.000% 06/01/33	750,000	923,647
<b>NY New York City Industrial Development Agency</b>	American Airlines, Inc., Series 2005, AMT,		
	7.750% 08/01/31	500,000	600,500

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	Terminal One Group Association LP, Series 2005, AMT, 5.500% 01/01/21	750,000	805,087
<b>TX Dallas-Fort Worth International Airport</b>	American Airlines, Inc., Series 2000 A, AMT, 9.000% 05/01/29	1,000,000	1,224,750

See Accompanying Notes to Financial Statements.

Colonial High Income Municipal Trust

May 31, 2007 (Unaudited)

**Municipal Bonds** (continued)

		Par (\$)	Value (\$)
<b>Transportation</b> (continued)			
<b>Air Transportation</b> (continued)			
<b>TX Houston Industrial Development Corp.</b>	United Parcel Service, Series 2002, AMT, 6.000% 03/01/23	675,000	710,053
<b>Air Transportation Total</b>			<b>8,425,881</b>
<b>Toll Facilities 2.6%</b>			
<b>CO E-470 Public Highway Authority</b>	Series 2000 B, Insured: MBIA (a) 09/01/18	3,000,000	1,847,280
<b>CO Northwest Parkway Public Highway Authority</b>	Series 2001 D, 7.125% 06/15/41	1,250,000	1,342,562
<b>VA Richmond Metropolitan Authority</b>	Series 1998, Insured: FGIC 5.250% 07/15/22	2,000,000	2,228,460
<b>Toll Facilities Total</b>			<b>5,418,302</b>
<b>Transportation 0.5%</b>			
<b>NV Department of Business &amp; Industry</b>	Las Vegas Monorail Co., Series 2000, 7.375% 01/01/40	1,000,000	1,049,440
<b>Transportation Total</b>			<b>1,049,440</b>
<b>Transportation Total</b>			<b>14,893,623</b>
<b>Utilities 16.1%</b>			
<b>Independent Power Producers 2.4%</b>			
<b>NY Port Authority of New York &amp; New Jersey</b>	KIAC Partners, Series 1996 IV, AMT, 6.750% 10/01/11	2,000,000	2,030,720
<b>NY Suffolk County Industrial Development Agency</b>	Nissequoque Cogeneration Partners Facilities, Series 1998, AMT, 5.500% 01/01/23	550,000	545,435
<b>OR Western Generation Agency</b>	Series 2006 A, 5.000% 01/01/21	500,000	508,700
<b>PA Carbon County Industrial Development Authority</b>	Panther Creek Partners, Series 2000, AMT, 6.650% 05/01/10	180,000	187,688
<b>PA Economic Development Financing Authority</b>	Northampton Generating, Series 1994 A, AMT, 6.500% 01/01/13	1,000,000	1,008,780
<b>PR Commonwealth of Puerto Rico Industrial, Tourist, Educational, Medical &amp; Environmental Cogeneration</b>	AES Project, Series 2000, AMT, 6.625% 06/01/26	645,000	695,561



**Facilities**

		<b>Independent Power Producers Total</b>	<b>4,976,884</b>
<b>Investor Owned 9.2%</b>			
<b>AZ Pima County Industrial</b>	Tucson Electric Power Co., Series 1997 A, AMT,		
<b>Development Authority</b>	6.100% 09/01/25	750,000	752,730

See Accompanying Notes to Financial Statements.

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Colonial High Income Municipal Trust

May 31, 2007 (Unaudited)

**Municipal Bonds** (continued)

		Par (\$)	Value (\$)
<b>Utilities</b> (continued)			
<b>Investor Owned</b> (continued)			
<b>CA Chula Vista Industrial Development Authority</b>	San Diego Gas & Electric Co., Series 1996 B, AMT, 5.500% 12/01/21	625,000	679,219
<b>FL Polk County Industrial Development Authority</b>	Tampa Electric Co., Series 1996, AMT, 5.850% 12/01/30	1,200,000	1,223,988
<b>IL Bryant</b>	Central Illinois Light Co., Series 1993, 5.900% 08/01/23	2,650,000	2,669,875
<b>LA Calcasieu Parish Industrial Development Board</b>	Entergy Gulf States, Inc., Series 1999, 5.450% 07/01/10	500,000	500,055
<b>LA West Feliciana Parish</b>	Entergy Gulf States, Inc., Series 1999 B, 6.600% 09/01/28	500,000	501,120
<b>MS Business Finance Corp.</b>	Systems Energy Resources, Inc. Project, Series 1998, 5.875% 04/01/22	2,000,000	2,004,780
<b>MT Forsyth</b>	Portland General, Series 1998 A, 5.200% 05/01/33	300,000	305,892
<b>NH Business Finance Authority</b>	Public Service Co., Series 2006 B, AMT, Insured: MBIA  4.750% 05/01/21	250,000	252,830
<b>NV Clark County Industrial Development Authority</b>	Nevada Power Co., Series 1995 B, AMT, 5.900% 10/01/30	1,250,000	1,253,238
<b>OH Air Quality Development Authority</b>	Cleveland Electric Illuminating Co., Series 2002 A, 6.000% 12/01/13	900,000	917,667
<b>PA Economic Development Financing Authority</b>	Reliant Energy, Inc., Series 2001 A, AMT, 6.750% 12/01/36	600,000	662,418
<b>TX Brazos River Authority</b>	TXU Energy Co., LLC: Series 2001 C, AMT, 5.750% 05/01/36	280,000	286,975
	Series 2003 C, AMT, 6.750% 10/01/38	645,000	702,882
<b>WV Pleasant County</b>	Western Pennsylvania Power Co., Series 1999 E, AMT, Insured: AMBAC 5.500% 04/01/29	4,750,000	4,901,762
<b>WY Campbell County</b>	Black Hills Power, Inc., Series 2004, 5.350% 10/01/24	1,250,000	1,302,675
<b>Investor Owned Total</b>			<b>18,918,106</b>

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**Joint Power Authority 0.4%**

**NC Eastern Municipal Power**

**Agency**

Series 1999 D,

6.700% 01/01/19

500,000

534,005

See Accompanying Notes to Financial Statements.

Colonial High Income Municipal Trust

May 31, 2007 (Unaudited)

**Municipal Bonds** (continued)

		<b>Par (\$)</b>	<b>Value (\$)</b>
<b>Utilities</b> (continued)			
<b>Joint Power Authority</b> (continued)			
	Series 2003 F, 5.500% 01/01/16	285,000	302,676
<b>Joint Power Authority Total</b>			<b>836,681</b>
<b>Municipal Electric 2.8%</b>			
<b>PR Commonwealth of Puerto Rico Electric Power Authority</b>			
	Series 1998 II, Insured: FSA 5.125% 07/01/26	2,000,000	2,135,040
<b>WA Chelan County Public Utility District No. 1</b>			
	Columbia River Rock Hydroelectric, Series 1997, Insured: MBIA (a) 06/01/14	5,000,000	3,742,850
<b>Municipal Electric Total</b>			<b>5,877,890</b>
<b>Water &amp; Sewer 1.3%</b>			
<b>AZ Surprise Municipal Property Corp.</b>			
	Series 2007, 4.900% 04/01/32	800,000	789,312
<b>Guam Government Waterworks Authority</b>			
	Series 2005, 5.875% 07/01/35	1,125,000	1,198,518
<b>MS V Lakes Utility District</b>			
	Series 1994, 8.250% 07/15/24(e)	480,000	288,000
<b>NH Industrial Development Authority</b>			
	Pennichuck Water Works, Inc., Series 1988, AMT, 7.500% 07/01/18	375,000	418,009
<b>Water &amp; Sewer Total</b>			<b>2,693,839</b>
<b>Utilities Total</b>			<b>33,303,400</b>
<b>Total Municipal Bonds (Cost of \$302,840,781)</b>			<b>314,545,142</b>

See Accompanying Notes to Financial Statements.

Colonial High Income Municipal Trust

May 31, 2007 (Unaudited)

**Municipal Preferred Stocks 3.1%**

		Par (\$)	Value (\$)
<b>Housing 3.1%</b>			
<b>Multi-Family 3.1%</b>			
<b>Charter Mac Equity Issuer Trust</b>	AMT, 6.300% 04/30/19 (f)	1,000,000	1,111,680
	Series 1999, AMT, 6.625% 06/30/09 (f)	2,000,000	2,085,420
<b>GMAC Municipal Mortgage Trust</b>	AMT, 5.600% 10/31/39 (f)	1,000,000	1,046,990
<b>Munimae TE Bond Subsidiary LLC</b>	Series 2000 B, AMT, 7.750% 06/30/50 (f)	2,000,000	2,191,000
<b>Multi-Family Total</b>			<b>6,435,090</b>
<b>Housing Total</b>			<b>6,435,090</b>
<b>Total Municipal Preferred Stocks (Cost of \$6,000,000)</b>			<b>6,435,090</b>

		Shares	
<b>Investment Company 0.0%</b>			
	Dreyfus Tax-Exempt Cash Management Fund	6,839	6,839
<b>Total Investment Company (Cost of \$6,839)</b>			<b>6,839</b>

		Par (\$)	
<b>Short-Term Obligations 0.8%</b>			
<b>Variable Rate Demand Notes (i) 0.8%</b>			
<b>FL Pinellas County Health Facility Authority</b>	All Childrens Hospital, Series 1985, Insured: AMBAC, SPA: Wachovia Bank N.A. 3.900% 12/01/15	300,000	300,000
<b>NE Lancaster County Hospital Authority No. 1</b>	Bryanlgh Medical Center, Series 2002, SPA: U.S. Bank N.A. 3.900% 06/01/18	600,000	600,000
<b>WI Health &amp; Educational Facilities Authority</b>	Gundersen Clinic Ltd., Series 2000 A, Insured: FSA, SPA: Dexia Credit Local 3.900% 12/01/15	100,000	100,000
<b>WY Sweetwater County</b>	Pacificorp Project, Series 1988 B, LOC: Barclays Bank PLC 3.870% 01/01/14	100,000	100,000
<b>WY Uinta County</b>	Chevron Corp., Series 1993, 3.900% 08/15/20	600,000	600,000
<b>Variable Rate Demand Notes Total</b>			<b>1,700,000</b>

**1,700,000**

**Total Short-Term Obligations**  
**(Cost of \$1,700,000)**

See Accompanying Notes to Financial Statements.

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Colonial High Income Municipal Trust

May 31, 2007 (Unaudited)

		Value (\$)
<b>Total Investments</b>	<b>156.2%</b>	
<b>(Cost of \$310,547,620)(j)</b>		<b>322,687,071</b>
<b>Auction Preferred Shares at Redemption Value</b>	<b>(58.1)%</b>	<b>(120,000,000)</b>
<b>Other Assets &amp; Liabilities, Net</b>	<b>1.9%</b>	<b>3,844,677</b>
<b>Net Assets</b>	<b>100.0%</b>	<b>206,531,748</b>

## Notes to Investment Portfolio:

(a) Zero coupon bond.

(b) Denotes a restricted security, which is subject to registration with the SEC or is required to be exempted from such registration prior to resale. At May 31, 2007, the value of this security represents 0.6% of net assets.

Additional information on this restricted security is as follows:

Security	Acquisition Date	Acquisition Cost
CA Statewide Communities Development Authority, Crossroads School for Arts & Sciences, Series 1998, 6.000% 08/01/28	08/21/98	\$ 1,230,000

(c) Represents fair value as determined in good faith under procedures approved by the Board of Trustees. At May 31, 2007, the value of these securities was \$940,069, which represents 0.5% of net assets.

(d) Step bond. Shown parenthetically is the next interest rate to be paid and the date the Trust will begin accruing at this rate.

(e) The issuer is in default of certain debt covenants. Income is not being accrued. At May 31, 2007, the value of these securities amounted to \$905,931, which represents 0.4% of net assets.

(f) Security exempt from registration pursuant to Rule 144A under the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers. At May 31, 2007, these securities, which are not illiquid, except as shown in the table below, amounted to \$8,816,913, which represents 4.3% of net assets.

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Security	Acquisition			
	Date	Par	Cost	Value
Resolution Trust Corp., Pass-Through Certificates, Series 1993 A, 8.500% 12/01/16	08/27/93	\$ 546,075	\$ 556,951	\$ 541,526

(g) The Trust has been informed that each issuer has placed direct obligations of the U.S. Government in an irrevocable trust, solely for the payment of principal and interest.

(h) A portion of this security with a market value of \$717,827 is pledged as collateral for open futures contracts.

(i) Variable rate demand notes. These securities are payable upon demand and are secured by letters of credit or other credit support agreements from banks. The interest rates change periodically and the interest rates shown reflect the rates at May 31, 2007.

(j) Cost for federal income tax purposes is \$310,283,777.

At May 31, 2007, the Trust held the following open short futures contracts:

Type	Number of Contracts	Value	Aggregate Face Value	Expiration Date	Unrealized Appreciation
10-Year U.S. Treasury Notes	136	\$ 14,469,125	\$ 14,688,622	Jun-2007	\$ 219,497

At May 31, 2007, the Trust held the following interest rate swap contract:

Notional Amount	Effective Date	Expiration Date	Counter- party	Receive (Pay)	Fixed Rate	Variable Rate	Unrealized Appreciation
\$15,000,000	05/07/07	08/09/07	JPMorgan Chase Bank	Pay	3.669%	BMA Index	\$193,987

At May 31, 2007, the Trust had sufficient cash and/or liquid securities to cover any commitments under these derivative contracts and delayed delivery settlements.

See Accompanying Notes to Financial Statements.



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Colonial High Income Municipal Trust

May 31, 2007 (Unaudited)

**At May 31, 2007, the composition of the investment portfolio by revenue source is as follows:**

	<b>% of Net Assets</b>
Health Care	46.7
Tax-Backed	25.3
Other	23.7
Utilities	16.1
Housing	18.1
Industrials	7.6
Transportation	7.2
Education	4.1
Other Revenue	4.0
Resource Recovery	2.6
	155.4
Investment Company	0.0*
Short-Term Obligations	0.8
Auction Preferred Shares at Redemption Value	(58.1)
Other Assets & Liabilities, Net	1.9
	100.0

\* Rounds to less than 0.1%

<b>Acronym</b>	<b>Name</b>
AMBAC	Ambac Assurance Corp.
AMT	Alternative Minimum Tax
FGIC	Financial Guaranty Insurance Co.
FHA	Federal Housing Administration
FHLMC	Federal Home Loan Mortgage Corp.
FNMA	Federal National Mortgage Association
FSA	Financial Security Assurance, Inc.
GNMA	Government National Mortgage Association
MBIA	MBIA Insurance Corp.
PSFG	Permanent School Fund Guarantee
LOC	Letter of Credit
SPA	Stand- by Purchase Agreement

See Accompanying Notes to Financial Statements.

# Statement of Assets and Liabilities

Colonial High Income Municipal Trust

May 31, 2007 (Unaudited)

		(\$)
<b>Assets</b>	Investments, at cost	310,547,620
	Investments, at value	322,687,071
	Cash	68,996
	Net unrealized appreciation on swap contracts	193,987
	Receivable for:	
	Interest	4,863,276
	Futures variation margin	14,875
	Deferred Trustees' compensation plan	32,299
	<b>Total Assets</b>	<b>327,860,504</b>
<b>Liabilities</b>	Payable for:	
	Distributions - common shares	937,641
	Distributions - preferred shares	18,987
	Investment advisory fee	207,151
	Pricing and bookkeeping fees	24,611
	Trustees' fees	2,558
	Custody fee	2,507
	Chief compliance officer expenses	1,287
	Deferred Trustees' compensation plan	32,299
	Other liabilities	101,715
	<b>Total Liabilities</b>	<b>1,328,756</b>
<b>Auction Preferred Shares</b>	4,800 shares issued and outstanding at \$25,000 per share	120,000,000
	<b>Net Assets Applicable to Common Shares</b>	<b>206,531,748</b>
<b>Composition of Net Assets Applicable to Common Shares</b>	Paid-in capital - common shares	256,732,232
	Overdistributed net investment income	(514,473)
	Accumulated net realized loss	(62,238,946)
	Net unrealized appreciation on:	
	Investments	12,139,451
	Swap contracts	193,987
	Futures contracts	219,497
	<b>Net assets at value applicable to 31,254,712 common shares of beneficial interest outstanding</b>	<b>206,531,748</b>
	<b>Net asset value per common share</b>	<b>6.61</b>

See Accompanying Notes to Financial Statements.

# Statement of Operations

Colonial High Income Municipal Trust

For the Six Months Ended May 31, 2007 (Unaudited)

		(\$)
<b>Investment Income</b>	Interest	9,479,343
	Dividends	2,065
Total Investment Income		9,481,408
<b>Expenses</b>	Investment advisory fee	1,228,647
	Transfer agent fee	26,232
	Pricing and bookkeeping fees	65,841
	Trustees' fees	11,606
	Preferred shares remarketing commissions	149,760
	Custody fee	6,006
	Chief compliance officer expenses	3,831
	Other expenses	83,450
Total Operating Expenses		1,575,373
Custody earnings credit		(2,200)
Net Expenses		1,573,173
<b>Net Investment Income</b>		<b>7,908,235</b>
<b>Net Realized and Unrealized Gain (Loss) on Investments, Futures Contracts and Swap Contracts</b>	Net realized gain on:	
	Investments	1,140,851
	Futures contracts	130,022
	Net realized gain	1,270,873
	Net change in unrealized appreciation (depreciation) on:	
	Investments	(4,812,707)
	Swap contracts	315,253
	Futures contracts	283,689
Net change in unrealized depreciation		(4,213,765)
Net Loss		(2,942,892)
<b>Net Increase Resulting from Operations</b>		<b>4,965,343</b>
<b>Less Distributions Declared to Preferred Shareholders</b>		
From net investment income		(2,169,881)
<b>Net Increase Resulting from Operations Applicable to Common Shares</b>		<b>2,795,462</b>

See Accompanying Notes to Financial Statements.



# Statement of Changes in Net Assets

Colonial High Income Municipal Trust

		(Unaudited) Six Months Ended	Year Ended
Increase (Decrease) in Net Assets		May 31, 2007 (\$)	November 30, 2006 (\$)
<b>Operations</b>	Net investment income	7,908,235	16,336,077
	Net realized gain (loss) on investments and futures contracts	1,270,873	(9,582,068)
	Net change in unrealized appreciation (depreciation) on investments, futures contracts and swap contracts	(4,213,765)	17,876,307
	<b>Net Increase Resulting from Operations</b>	<b>4,965,343</b>	<b>24,630,316</b>
<b>Less Distributions Declared to Preferred Shareholders</b>	From net investment income	(2,169,881)	(4,016,026)
	<b>Increase Resulting from Operations Applicable to Common Shares</b>	<b>2,795,462</b>	<b>20,614,290</b>
<b>Less Distributions Declared to Common Shareholders</b>	From net investment income:	(6,560,992)	(12,546,482)
<b>Share Transactions</b>	Distributions reinvested	149,558	413,954
	<b>Net Increase in Net Assets Applicable to Common Shares</b>	<b>(3,615,972)</b>	<b>8,481,762</b>
<b>Net Assets Applicable to Common Shares</b>	Beginning of period	210,147,720	201,665,958
	End of period (including undistributed (overdistributed) net investment income of \$(514,473) and \$308,165, respectively)	206,531,748	210,147,720
<b>Number of Trust Shares</b>	Common Shares		
	Issued for distributions reinvested	22,464	63,225
	Outstanding at:		
	Beginning of period	31,232,248	31,169,023
	End of period	31,254,712	31,232,248
	Preferred Shares		
	Outstanding at end of period	4,800	4,800

See Accompanying Notes to Financial Statements.

## Financial Highlights Colonial High Income Municipal Trust

Selected data for a share outstanding throughout each period is as follows:

	(Unaudited) Six Month		Year Ended November 30,			
	Ended May 31,					
	2007	2006	2005	2004	2003	2002
<b>Net Asset Value, Beginning of Period</b>	\$ 6.73	\$ 6.47	\$ 6.39	\$ 6.57	\$ 6.52	\$ 6.93

### Income from Investment

#### Operations:

Net investment income (a)	0.25
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#### Debt securities:

U.S. Treasury bonds	\$34,449	\$(109 )	\$11,015	\$(27 )	\$45,464	\$(136 )
Municipal bonds	107,182	(591 )	13,096	(138 )	120,278	(729 )
Foreign bonds	3,146	(8 )	—	—	3,146	(8 )
Governmental agency bonds	140,760	(258 )	44,933	(267 )	185,693	(525 )
Governmental agency mortgage-backed securities	497,847	(1,573 )	170,779	(3,645 )	668,626	(5,218 )
Corporate debt securities	102,134	(1,753 )	2,498	(4 )	104,632	(1,757 )
Total debt securities	885,518	(4,292 )	242,321	(4,081 )	1,127,839	(8,373 )
Equity securities	90,625	(2,369 )	2,527	(283 )	93,152	(2,652 )
Total	\$976,143	\$(6,661 )	\$244,848	\$(4,364 )	\$1,220,991	\$(11,025)

December 31, 2014

#### Debt securities:

U.S. Treasury bonds	\$8,122	\$(27 )	\$15,124	\$(154 )	\$23,246	\$(181 )
Municipal bonds	137,755	(689 )	19,625	(318 )	157,380	(1,007 )
Foreign bonds	6,215	(8 )	—	—	6,215	(8 )
Governmental agency bonds	27,479	(88 )	127,936	(1,930 )	155,415	(2,018 )
Governmental agency mortgage-backed securities	383,717	(1,612 )	300,918	(7,483 )	684,635	(9,095 )
Non-agency mortgage-backed securities	—	—	5,611	(717 )	5,611	(717 )
Corporate debt securities	198,079	(3,151 )	9,683	(113 )	207,762	(3,264 )
Total debt securities	761,367	(5,575 )	478,897	(10,715)	1,240,264	(16,290)
Equity securities	208,922	(8,587 )	2,340	(191 )	211,262	(8,778 )
Total	\$970,289	\$(14,162)	\$481,237	\$(10,906)	\$1,451,526	\$(25,068)

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Notes to Condensed Consolidated Financial Statements – (Continued)  
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The amortized cost and estimated fair value of debt securities at March 31, 2015, 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
<b>U.S. Treasury bonds</b>					
Amortized cost	\$ 3,901	\$66,751	\$6,329	\$18,840	\$95,821
Estimated fair value	\$ 3,954	\$67,065	\$6,521	\$19,519	\$97,059
<b>Municipal bonds</b>					
Amortized cost	\$ 36,197	\$261,299	\$203,947	\$110,738	\$612,181
Estimated fair value	\$ 36,394	\$264,118	\$209,590	\$114,304	\$624,406
<b>Foreign bonds</b>					
Amortized cost	\$ 45,043	\$122,711	\$6,566	\$3,100	\$177,420
Estimated fair value	\$ 45,238	\$125,680	\$6,812	\$3,291	\$181,021
<b>Governmental agency bonds</b>					
Amortized cost	\$ 12,368	\$264,168	\$59,953	\$21,889	\$358,378
Estimated fair value	\$ 12,382	\$264,117	\$60,525	\$22,813	\$359,837
<b>Corporate debt securities</b>					
Amortized cost	\$ 20,797	\$272,892	\$364,116	\$59,148	\$716,953
Estimated fair value	\$ 20,999	\$277,919	\$370,011	\$61,933	\$730,862
<b>Total debt securities excluding mortgage-backed securities</b>					
Amortized cost	\$ 118,306	\$987,821	\$640,911	\$213,715	\$1,960,753
Estimated fair value	\$ 118,967	\$998,899	\$653,459	\$221,860	\$1,993,185
<b>Total mortgage-backed securities</b>					
Amortized cost					\$2,038,262

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Estimated fair value	\$2,046,631
Total debt securities	
Amortized cost	\$3,999,015
Estimated fair value	\$4,039,816

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.

Note 4 – Goodwill

A summary of the changes in the carrying amount of goodwill, by operating segment, for the three months ended March 31, 2015, is as follows:

	Title Insurance and Services	Specialty Insurance	Total
(in thousands)			
Balance as of December 31, 2014	\$ 913,180	\$ 46,765	\$959,945
Acquisitions	28,679	—	28,679
Foreign currency translation	(4,917 )	—	(4,917 )
Balance as of March 31, 2015	\$ 936,942	\$ 46,765	\$983,707

The Company's four reporting units for purposes of assessing impairment are title insurance, home warranty, property and casualty insurance and trust and other services. During the three months ended March 31, 2015 there were no triggering events that would require an impairment analysis. There is no accumulated impairment for goodwill as the Company has never recognized impairment to any of its reporting units.



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Notes to Condensed Consolidated Financial Statements – (Continued)  
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Note 5 – Other Intangible Assets

Other intangible assets consist of the following:

	March 31,	December 31,
(in thousands)	2015	2014
Finite-lived intangible assets:		
Customer relationships	\$93,477	\$ 94,850
Noncompete agreements	26,747	27,286
Trademarks	8,990	11,241
Patents	2,840	2,840
	132,054	136,217
Accumulated amortization	(96,302 )	(97,282 )
	35,752	38,935
Indefinite-lived intangible assets:		
Licenses	16,877	16,877
	\$52,629	\$ 55,812

Amortization expense for finite-lived intangible assets was \$2.5 million and \$3.0 million for the three months ended March 31, 2015 and 2014, respectively.

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

Year	(in thousands)
Remainder of 2015	\$ 6,478

2016	\$ 7,955
2017	\$ 6,708
2018	\$ 4,367
2019	\$ 3,595
2020	\$ 2,115

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

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

(in thousands, except percentages)	March 31, 2015			December 31, 2014		
Known title claims	\$99,258	10.5	%	\$165,330	16.3	%
Incurred but not reported claims	803,280	84.8	%	802,069	79.3	%
Total title claims	902,538	95.3	%	967,399	95.6	%
Non-title claims	44,309	4.7	%	44,381	4.4	%
Total loss reserves	\$946,847	100.0	%	\$1,011,780	100.0	%

The Company's reserve for known title claims was \$99.3 million at March 31, 2015, a decline of \$66.1 million, or 40.0%, from the balance at December 31, 2014. This decline is primarily attributable to settlement payments associated with certain large claims during the first quarter of 2015. The reserve for known title claims associated with these claims recorded at December 31, 2014 was \$56.0 million. The Company paid \$35.0 million, net of \$21.0 million recovered through reinsurance, during the first quarter of 2015 to settle these claims.

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Notes to Condensed Consolidated Financial Statements – (Continued)  
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The provision for title insurance losses, expressed as a percentage of title insurance premiums and escrow fees, was 6.5% and 6.0% for the three months ended March 31, 2015 and 2014, respectively. The current quarter rate of 6.5% reflects the ultimate loss rate of 6.0% for the current policy year and a \$4.3 million net increase in the loss reserve estimates for prior policy years. The first quarter of 2014 rate of 6.0% reflected the ultimate loss rate for the 2014 policy year.

Note 7 – Income Taxes

The Company's effective income tax rate (income tax expense as a percentage of income before income taxes) was 35.9% and 38.0% for the three months ended March 31, 2015 and 2014, respectively. The differences in the effective tax rates were primarily due to changes in the ratio of permanent differences to income before income taxes, changes in state and foreign income taxes resulting from fluctuations in the Company's noninsurance and foreign subsidiaries' contribution to pretax profits and changes in the liability related to tax positions on the Company's tax returns recorded in 2014.

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 March 31, 2015 and December 31, 2014, the Company had a net payable to CoreLogic of \$35.3 million and \$35.1 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 increase during the current year was primarily the result of an additional accrual for tax matters prior to the spin-off.

The Company evaluates the realizability of its deferred tax assets by assessing the valuation allowance and adjusting the amount of such allowance, if necessary. The factors used to assess the likelihood of realization are the Company's forecast of future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets. The ability or failure to achieve the forecasted taxable income in the applicable taxing jurisdictions could affect the ultimate realization of deferred tax assets. Based on 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 March 31, 2015 and December 31, 2014, the liability for income taxes associated with uncertain tax positions was \$24.2 million and \$24.1 million, respectively. The net increase in the liability during 2015 was primarily attributable to activity related to examinations conducted by various taxing authorities. As of March 31, 2015 and December 31, 2014, the liabilities could be reduced by \$3.4 million of offsetting tax benefits associated with the correlative effects of potential adjustments including timing adjustments and state income taxes. The net amounts of \$20.8 million and \$20.7 million as of March 31, 2015 and December 31, 2014, 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 March 31, 2015 and December 31, 2014, the Company had accrued \$9.1 million and \$8.9 million, respectively, of interest and penalties (net of tax benefits of \$3.8 million and \$3.7 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. These changes may be the result of items such as 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. The Company is no longer subject to U.S. federal, state and non-U.S. income tax examinations by taxing authorities for years prior to 2005.

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Notes to Condensed Consolidated Financial Statements – (Continued)  
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Note 8 – Earnings Per Share

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

	For the Three Months Ended March 31,	
(in thousands, except per share amounts)	2015	2014
<b>Numerator</b>		
Net income attributable to the Company	\$ 37,632	\$ 21,724
Less: dividends and undistributed earnings allocated to unvested restricted stock units (“RSUs”)	50	52
Net income allocated to common stockholders	\$ 37,582	\$ 21,672
<b>Denominator</b>		
Basic weighted-average shares	107,744	106,166
Effect of dilutive employee stock options and RSUs	1,700	2,110
Diluted weighted-average shares	109,444	108,276
<b>Net income per share attributable to the Company’s stockholders</b>		
Basic	\$ 0.35	\$ 0.20
Diluted	\$ 0.34	\$ 0.20

For the three months ended March 31, 2015, no stock options or RSUs had an antidilutive effect on weighted-average diluted common shares outstanding. For the three months ended March 31, 2014, 165 thousand of stock options and RSUs were excluded from the 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 during the three months ended March 31, 2015 and 2014 includes the following components:

	For the Three Months Ended March 31,	
(in thousands)	2015	2014

Expense:		
Service costs	\$ 390	\$ 329
Interest costs	7,009	6,956
Expected return on plan assets	(5,448 )	(4,694 )
Amortization of net actuarial loss	8,492	7,407
Amortization of prior service credit	(1,041 )	(1,038 )
	\$ 9,402	\$ 8,960

The Company contributed \$8.7 million to the defined benefit pension and supplemental benefit plans during the three months ended March 31, 2015, and expects to contribute an additional \$27.1 million during the remainder of 2015. These contributions include both those required by funding regulations as well as discretionary contributions necessary to provide benefit payments to participants of certain of the Company's non-qualified supplemental benefit plans.

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Notes to Condensed Consolidated Financial Statements – (Continued)  
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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 value of debt securities was 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 bonds, governmental agency bonds, governmental agency mortgage-backed securities and corporate debt securities include, but are not limited to, benchmark yields, reported trades, broker-dealer quotes, credit spreads, credit ratings, bond insurance (if applicable), benchmark securities, bids, offers, reference data and industry and economic events. For mortgage-backed securities, inputs and assumptions may also include the structure of issuance, characteristics of the issuer, collateral attributes and prepayment speeds. Non-agency mortgage-backed securities and certain corporate debt securities were not actively traded and there were fewer observable inputs available requiring the pricing services to use more judgment in determining their fair values, which resulted in their classification as Level 3.



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Notes to Condensed Consolidated Financial Statements – (Continued)  
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The significant unobservable inputs used in the fair value measurement of the Company's non-agency mortgage-backed securities included prepayment rates, default rates and loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement. Generally, a change in the assumption used for default rates is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

Equity securities

The fair value 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 table presents the fair value of the Company's assets measured on a recurring basis as of March 31, 2015 and December 31, 2014:

(in thousands)	Total	Level 1	Level 2	Level 3
March 31, 2015				
Assets:				
Debt securities:				
U.S. Treasury bonds	\$97,059	\$—	\$97,059	\$—
Municipal bonds	624,406	—	624,406	—
Foreign bonds	181,021	—	181,021	—
Governmental agency bonds	359,837	—	359,837	—
Governmental agency mortgage-backed securities	2,046,631	—	2,046,631	—
Corporate debt securities	730,862	—	698,296	32,566
	4,039,816	—	4,007,250	32,566
Equity securities:				
Preferred stocks	18,028	18,028	—	—
Common stocks	268,301	268,301	—	—
	286,329	286,329	—	—
Total assets	\$4,326,145	\$286,329	\$4,007,250	\$32,566

(in thousands)	Total	Level 1	Level 2	Level 3
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December 31, 2014				
Assets:				
Debt securities:				
U.S. Treasury				
bonds	\$64,982	\$—	\$64,982	\$—
Municipal bonds	587,677	—	587,677	—
Foreign bonds	196,750	—	196,750	—
Governmental				
agency bonds	197,874	—	197,874	—
Governmental				
agency				
mortgage-backed				
securities	1,812,162	—	1,812,162	—
Non-agency				
mortgage-backed				
securities	16,538	—	—	16,538
Corporate debt				
securities	574,269	—	574,269	—
	3,450,252	—	3,433,714	16,538
Equity securities:				
Preferred stocks	15,525	15,525	—	—
Common stocks	386,887	386,887	—	—
	402,412	402,412	—	—
Total assets	\$3,852,664	\$402,412	\$3,433,714	\$16,538

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Notes to Condensed Consolidated Financial Statements – (Continued)  
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The Company did not have any transfers in and out of Level 1, Level 2 and Level 3 measurements during the three months ended March 31, 2015 and 2014. 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 fair value of Level 3 assets measured on a recurring basis for the three months ended March 31, 2015 and 2014:

(in thousands)	March 31, 2015 Corporate debt securities	Non-agency mortgage-backed securities	Total	March 31, 2014 Non-agency mortgage-backed securities
Fair value at beginning of period	\$—	\$16,538	\$16,538	\$19,022
Total gains/(losses) (realized and unrealized):				
Included in earnings:				
Realized gains (losses)	2	(1,015)	(1,013)	—
Net other-than-temporary impairment losses	—	—	—	(518)
Included in other comprehensive income (loss)	249	(589)	(340)	466
Purchases	32,557	—	32,557	—
Sales	(172)	(14,934)	(15,106)	—
Settlements	(70)	—	(70)	(324)
Fair value at end of period	\$32,566	\$—	\$32,566	\$18,646
Unrealized gains (losses) included in earnings for the period relating to Level 3 available-for-sale investments that were still held at the end of the period:				
Net other-than-temporary impairment losses	\$—	\$—	\$—	\$(518)

Financial instruments not measured at fair value

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

Cash and cash equivalents

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

Deposits with banks

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

Notes receivable, net

The fair value of notes receivable, net is estimated based on the discounted value of the future cash flows using approximate current market rates being offered for notes with similar maturities and similar credit quality.

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### Deposits

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

### 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 the same 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 March 31, 2015 and December 31, 2014:

	Carrying	Estimated fair value			
(in thousands)	Amount	Total	Level 1	Level 2	Level 3
March 31, 2015					
Assets:					
Cash and cash equivalents	\$878,397	\$878,397	\$878,397	\$—	\$—
Deposits with banks	\$17,679	\$17,723	\$3,029	\$14,694	\$—
Notes receivable, net	\$6,711	\$4,433	\$—	\$—	\$4,433
Liabilities:					
Deposits	\$2,612,350	\$2,612,350	\$2,612,350	\$—	\$—
Notes and contracts payable	\$585,551	\$602,757	\$—	\$597,320	\$5,437

	Carrying	Estimated fair value			
(in thousands)	Amount	Total	Level 1	Level 2	Level 3
December 31, 2014					
Assets:					
Cash and cash equivalents	\$ 1,190,080	\$ 1,190,080	\$ 1,190,080	\$—	\$—
Deposits with banks	\$ 21,445	\$ 21,540	\$ 4,068	\$ 17,472	\$—
Notes receivable, net	\$ 6,130	\$ 3,930	\$—	\$—	\$ 3,930
Liabilities:					
Deposits	\$ 2,332,714	\$ 2,332,714	\$ 2,332,714	\$—	\$—
Notes and contracts payable	\$ 587,337	\$ 595,087	\$—	\$ 588,542	\$ 6,545

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

	For the Three Months Ended March 31,	
(in thousands)	2015	2014
Expense:		
Restricted		
stock units	\$ 10,102	\$ 8,273
Stock options	67	67
Employee		
stock purchase		
plan	689	1,057
	\$ 10,858	\$ 9,397

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Notes to Condensed Consolidated Financial Statements – (Continued)  
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The following table summarizes RSU activity for the three months ended March 31, 2015:

(in thousands, except weighted-average grant-date fair value)	Shares	Weighted-average grant-date fair value
RSUs unvested at December 31, 2014	2,337	\$21.21
Granted during 2015	670	\$34.86
Vested during 2015	(673 )	\$20.75
Forfeited during 2015	(2 )	\$26.35
RSUs unvested at March 31, 2015	2,332	\$25.26

The following table summarizes stock option activity for the three months ended March 31, 2015:

(in thousands, except weighted-average exercise price and contractual term)	Number outstanding	Weighted- average exercise price	Weighted- average remaining contractual term	Aggregate intrinsic value
Balance at December 31, 2014	686	\$ 20.18		
Exercised during 2015	(266 )	\$ 16.25		
Balance at March 31, 2015	420	\$ 22.68	3.2 years	\$ 5,459
Vested and expected to vest at March 31, 2015	420	\$ 22.68	3.2 years	\$ 5,459
Exercisable at March 31, 2015	321	\$ 21.13	1.5 years	\$ 4,663

Note 12 – Accumulated Other Comprehensive Income (Loss)

Changes in the balances of each component of accumulated other comprehensive income (loss) for the three months ended March 31, 2015 are as follows:

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(in thousands)	Unrealized gains (losses) on securities	Foreign currency translation adjustment	Pension benefit adjustment	Accumulated other comprehensive income (loss)
Balance at December 31, 2014	\$ 10,911	\$ (20,420 )	\$ (189,580 )	\$ (199,089 )
Change in unrealized gains (losses) on securities	31,122	—	—	31,122
Change in foreign currency translation adjustments	—	(18,660 )	—	(18,660 )
Amortization of net actuarial loss	—	—	8,492	8,492
Amortization of prior service cost	—	—	(1,041 )	(1,041 )
Tax effect	(11,049 )	—	(2,851 )	(13,900 )
Balance at March 31, 2015	\$ 30,984	\$ (39,080 )	\$ (184,980 )	\$ (193,076 )
Allocated to the Company	\$ 30,969	\$ (39,080 )	\$ (184,980 )	\$ (193,091 )
Allocated to noncontrolling interests	15	—	—	15
Balance at March 31, 2015	\$ 30,984	\$ (39,080 )	\$ (184,980 )	\$ (193,076 )



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The following table presents the other comprehensive income (loss) reclassification adjustments for the three months ended March 31, 2015 and 2014:

(in thousands)	Unrealized gains (losses) on securities	Foreign currency translation adjustment	Pension benefit adjustment	Total other comprehensive income (loss)
Three Months Ended March 31, 2015				
Pretax change before reclassifications	\$ 28,431	\$ (18,660 )	\$ —	\$ 9,771
Reclassifications out of AOCI	2,691	—	7,451	10,142
Tax effect	(11,049 )	—	(2,851 )	(13,900 )
Total other comprehensive income (loss), net of tax	\$ 20,073	\$ (18,660 )	\$ 4,600	\$ 6,013
Three Months Ended March 31, 2014				
Pretax change before reclassifications	\$ 22,333	\$ (6,040 )	\$ —	\$ 16,293
Reclassifications out of AOCI	(2,366 )	—	6,369	4,003
Tax effect	(7,767 )	—	(2,478 )	(10,245 )
Total other comprehensive income (loss), net of tax	\$ 12,200	\$ (6,040 )	\$ 3,891	\$ 10,051

The following table presents the effect of the reclassifications out of accumulated other comprehensive income (loss) on the respective line items in the condensed consolidated statements of income:

Amounts reclassified  
from accumulated  
other comprehensive  
income (loss)

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(in thousands)	Three Months Ended		Affected line items in the condensed consolidated statements of income
	March 31, 2015	2014	
Unrealized gains (losses) on securities:			
Net realized gains (losses) on sales of securities	\$ (2,691 )	\$ 2,884	Net realized investment gains (losses)
Net other-than-temporary impairment losses	—	(518 )	Net realized investment gains (losses)
Pretax total	\$ (2,691 )	\$ 2,366	
Tax effect	\$ 955	\$ (921 )	
Pension benefit adjustment:			
Amortization of defined benefit pension and supplemental benefit plan items:			
Net actuarial loss	\$ (8,492 )	\$ (7,407 )	(1)
Prior service credit	1,041	1,038	(1)
Pretax total	\$ (7,451 )	\$ (6,369 )	
Tax effect	\$ 2,851	\$ 2,478	

(1) These accumulated other comprehensive income components 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.

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Notes to Condensed Consolidated Financial Statements – (Continued)  
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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
- Levine v. First American Title Insurance Company, filed on February 26, 2009 and pending in the United States District Court for the Eastern District of Pennsylvania,
- 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, and
- Raffone v. First American Title Insurance Company, filed on February 14, 2004 and pending in the Circuit Court, Nassau County, Florida.

All of these lawsuits are putative class actions. A court has only granted class certification in Lewis and Raffone. 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 or, where the Company has been able to make an estimate, the Company believes the amount is immaterial to the condensed consolidated financial statements as a whole.

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- purchased minority interests in title insurance agents as an inducement to refer title insurance underwriting business to the Company or gave items of value to title insurance agents and others for referrals of business in violation of the Real Estate Settlement Procedures Act, including
- Edwards v. First American Financial Corporation, filed on June 12, 2007 and pending in the United States District Court for the Central District of California.

In Edwards a narrow class has been certified. For the reasons stated above, the Company has been unable to estimate the possible loss or the range of loss.

- engaged in the unauthorized practice of law, including

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·Gale v. First American Title Insurance Company, et al., filed on October 16, 2006 and pending in the United States District Court of Connecticut.

The class originally certified in Gale was subsequently decertified. 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.

·misclassified certain employees, including

·Sager v. Interthinx, Inc., filed on January 23, 2015 and pending in the Superior Court of the State of California, County of Los Angeles.

Sager is a putative class action for which a class has not been certified. For the reasons described above, the Company has not yet been able to assess the probability of loss or estimate the possible loss or the range of loss.

·overcharged or improperly charged fees for products and services, denied home warranty claims, failed to timely file certain documents, and gave items of value to developers, builders 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

·Bushman v. First American Title Insurance Company, et al., filed on November 21, 2013 and pending in the Circuit Court of the State of Michigan, County of Washtenaw,

·Chassen v. First American Financial Corporation, et al., filed on January 22, 2009 and pending in the United States District Court of New Jersey,

·Gunning v. First American Title Insurance Company, filed on July 14, 2008 and pending in the United States District Court for the Eastern District of Kentucky,

·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,

·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,

·Snyder v. First American Financial Corporation, et al., filed on June 21, 2014 and pending in the United States District Court for the District of Colorado,

·Wilmot v. First American Financial Corporation, et al., filed on April 20, 2007 and pending in the Superior Court of the State of California, County of Los Angeles, and

·In re First American Home Buyers Protection Corporation, consolidated on October 9, 2014 and pending in the United States District Court for the Southern District of California.

All of these lawsuits, except Kaufman and Kirk, 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, plaintiff has filed a notice of appeal and the Company filed a cross 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 immaterial 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.

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Notes to Condensed Consolidated Financial Statements – (Continued)  
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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 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.

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Notes to Condensed Consolidated Financial Statements – (Continued)  
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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; and provides banking, trust 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 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 46 states. 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 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. Eliminations consist of inter-segment revenues and related expenses included in the results of the operating segments.

Selected financial information, by reporting segment, is as follows:

For the three months ended March 31, 2015:

(in thousands)	Revenues	Income (loss) before income taxes	Depreciation and amortization	Capital expenditures
Title Insurance and Services	\$1,019,773	\$ 69,502	\$ 19,526	\$ 31,318
Specialty Insurance	94,535	17,171	1,206	755
Corporate	(2,827 )	(27,725 )	122	—



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Eliminations	(397 )	—	—	—
	\$1,111,084	\$ 58,948	\$ 20,854	\$ 32,073

For the three months ended March 31, 2014:

(in thousands)	Revenues	Income (loss) before income taxes	Depreciation and amortization	Capital expenditures
Title Insurance and Services	\$925,329	\$ 42,637	\$ 17,914	\$ 19,980
Specialty Insurance	87,141	13,899	1,239	1,178
Corporate	719	(21,283 )	819	—
Eliminations	(390 )	—	—	—
	\$1,012,799	\$ 35,253	\$ 19,972	\$ 21,158

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

CERTAIN STATEMENTS IN THIS QUARTERLY REPORT ON FORM 10-Q, INCLUDING BUT NOT LIMITED TO THOSE SET FORTH ON PAGE 3 OF THIS QUARTERLY REPORT ARE FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED, AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. THESE FORWARD-LOOKING STATEMENTS MAY CONTAIN THE WORDS "BELIEVE," "ANTICIPATE," "EXPECT," "PLAN," "PREDICT," "ESTIMATE," "PROJECT," "WILL BE," "WILL CONTINUE," "WILL LIKELY RESULT," OR OTHER SIMILAR WORDS AND PHRASES.

RISKS AND UNCERTAINTIES EXIST THAT MAY CAUSE RESULTS TO DIFFER MATERIALLY FROM THOSE SET FORTH IN THESE FORWARD-LOOKING STATEMENTS. FACTORS THAT COULD CAUSE THE ANTICIPATED RESULTS TO DIFFER FROM THOSE DESCRIBED IN THE FORWARD-LOOKING STATEMENTS INCLUDE 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, adjusted other operating expenses and adjusted depreciation and amortization expense, 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, 2014. 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, 2014.

#### Recently Adopted Accounting Pronouncements

In April 2014, the FASB issued updated guidance which changes the criteria for determining which disposals are required to be presented as discontinued operations and modifies related disclosure requirements. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2014, with early adoption permitted. The adoption of this guidance had no impact on the Company's condensed consolidated financial statements.

#### Pending Accounting Pronouncements

In April 2015, the FASB issued updated guidance intended to simplify, and provide consistency to, the presentation of debt issuance costs. The new standard requires that debt issuance costs be presented in the balance sheet as a direct

deduction from the carrying amount of the debt liability, consistent with debt discounts. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2015, 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 February 2015, the FASB issued updated guidance which changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2015, with early adoption permitted. The Company expects the adoption of this guidance to have no impact on its condensed consolidated financial statements.

In June 2014, the FASB issued updated guidance intended to eliminate the diversity in practice regarding share-based payment awards that include terms which provide for a performance target that affects vesting being achieved after the requisite service period. The new standard requires that a performance target which affects vesting and could be achieved after the requisite service period be treated as a performance condition that affects vesting and should not be reflected in

estimating the grant-date fair value. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2015, with early adoption permitted. The Company expects the adoption of this guidance to have no impact on its condensed consolidated financial statements.

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. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption prohibited. The Company is currently assessing the impact of the new guidance on its condensed consolidated financial statements.

## Results of Operations

### Summary of First 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 9.7% in the first quarter of 2015 when compared with the first quarter of 2014. This increase was primarily attributable to an increase in refinance transactions and commercial business and, to a lesser extent, an increase in residential purchase transactions during 2015. Direct revenues from refinance transactions, commercial business and residential purchase transactions increased 75.6%, 28.3% and 9.4%, respectively, in the first quarter of 2015 when compared with the first quarter of 2014. The significant increase in refinance transactions was attributable to the low mortgage rate environment during the three months ended March 31, 2015 when compared to the same period of 2014.

According to the Mortgage Bankers Association's April 20, 2015 Mortgage Finance Forecast (the "MBA Forecast"), residential mortgage originations in the United States (based on the total dollar value of the transactions) increased 16.6% in the first quarter of 2015 when compared with the first quarter of 2014. According to the MBA Forecast, the dollar amount of purchase originations increased 11.3% and refinance originations increased 22.0%. The higher volume of domestic residential mortgage origination activity in the first quarter of 2015 contributed to a 2.4% increase in domestic residential purchase orders closed per day and a 62.2% increase in domestic refinance orders closed per day by the Company's direct title operations in the first quarter of 2015 when compared with the first quarter of 2014.

During the first quarter of 2015, the level of domestic title orders opened per day by the Company's direct title operations increased by 24.3% when compared with the first quarter of 2014. Refinance, commercial and residential purchase open orders per day increased by 70.3%, 12.0% and 5.8%, respectively, during the first quarter of 2015 when compared to the same quarter of 2014.

The Consumer Financial Protection Bureau ("CFPB") has broad authority to regulate, among other areas, the mortgage and real estate markets in matters pertaining to consumers. In addition to other activities, the CFPB has proposed and

implemented regulations related to the simplification of mortgage disclosures and the required delivery of documentation to consumers in connection with the closing of federally-regulated mortgage loans. Compliance with these integrated disclosure rules will require participants in the mortgage market, including the Company, to make significant changes to the manner in which they create, process, and deliver certain disclosures to consumers in connection with mortgage loan applications made on or after August 1, 2015. These changes could lead to lower mortgage volumes and/or delays in mortgage processing, particularly in the early stages of implementation. Readiness for, and compliance with, these rules, also requires extensive planning; changes to systems, forms and processes; as well as heightened coordination among market participants, including by settlement service providers, such as the Company and its agents, with lenders and others. While there can be no assurance that the Company, its agents or other market participants will be successful in their implementation efforts, the Company is actively preparing for compliance.

## Title Insurance and Services

	Three Months Ended March 31,				
(in thousands, except percentages)	2015	2014	\$ Change	% Change	
<b>Revenues</b>					
Direct premiums and escrow fees	\$428,351	\$349,363	\$78,988	22.6	%
Agent premiums	426,327	420,924	5,403	1.3	
Information and other	145,884	137,178	8,706	6.3	
Net investment income	21,774	15,703	6,071	38.7	
Net realized investment (losses) gains	(2,563 )	2,161	(4,724 )	(218.6 )	
	1,019,773	925,329	94,444	10.2	
<b>Expenses</b>					
Personnel costs	331,371	300,279	31,092	10.4	
Premiums retained by agents	342,460	336,665	5,795	1.7	
Other operating expenses	188,742	170,082	18,660	11.0	
Provision for policy losses and other claims	55,550	46,216	9,334	20.2	
Depreciation and amortization	19,526	17,914	1,612	9.0	
Premium taxes	12,031	10,936	1,095	10.0	
Interest	591	600	(9 )	(1.5 )	
	950,271	882,692	67,579	7.7	
<b>Income before income taxes</b>	<b>\$69,502</b>	<b>\$42,637</b>	<b>\$26,865</b>	<b>63.0</b>	<b>%</b>
<b>Margins</b>	<b>6.8</b>	<b>% 4.6</b>	<b>% 2.2</b>	<b>% 47.8</b>	<b>%</b>

Direct premiums and escrow fees were \$428.4 million for the three months ended March 31, 2015, an increase of \$79.0 million, or 22.6%, when compared with the same period of the prior year. The increase was primarily due to an increase in domestic title orders closed by the Company's direct operations and, to a lesser extent, an increase in the domestic average revenues per order closed. The average revenues per order closed was \$1,865 for the three months ended March 31, 2015, an increase of 8.2% when compared with \$1,723 for the three months ended March 31, 2014. The quarter over quarter increase in average revenues per order closed was primarily attributable to an increase in the number of large commercial deals closed in the quarter and higher real estate values, partially offset by an increase in the mix of direct revenues generated from lower premium refinance transactions. The Company's direct title operations closed 207,600 title orders during the three months ended March 31, 2015, an increase of 15.3% when compared with 180,100 title orders closed during the same period of the prior year, which was generally consistent with residential mortgage origination activity in the United States as reported in the MBA Forecast.

Agent premiums were \$426.3 million for the three months ended March 31, 2015, an increase of \$5.4 million, or 1.3%, when compared with the same period 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, first quarter agent premiums typically reflect fourth quarter mortgage origination activity. The increase in agent premiums quarter over quarter was generally consistent with the 8.7% increase in the Company's direct premiums and escrow fees in the fourth quarter of 2014 as compared with the fourth quarter of 2013.

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 \$145.9 million for the three months ended March 31, 2015, an increase of \$8.7 million, or 6.3%, when compared with the same period of the prior year. Excluding the \$11.4 million impact of acquisitions for the three months ended March 31, 2015, information and other revenues decreased \$2.7 million, or 2.0%, when compared with the same period of the prior year. The decrease, adjusted for the impact of acquisitions, was primarily attributable to lower demand for the Company's default information products as a result of the decrease in domestic loss mitigation activities in the current quarter when compared with the same period of the prior year.

Net investment income totaled \$21.8 million for the three months ended March 31, 2015, an increase of \$6.1 million, or 38.7%, when compared with the same period of the prior year. The increase was primarily attributable to higher interest income from the investment portfolio due to higher average balances outstanding in the Company's debt securities portfolio in the first quarter of 2015 when compared to the same period of the prior year. Additionally, the Company recognized \$2.0

million of impairment losses related to investments accounted for using the equity method in the first quarter of 2014, while no such impairment losses were recognized in the first quarter of 2015.

Net realized investment losses totaled \$2.6 million for the three months ended March 31, 2015 and were primarily from the sales of equity securities, partially offset by net gains from the sales of office buildings. Net realized investment gains totaled \$2.2 million for the three months ended March 31, 2014 and were primarily from the sales of debt and equity securities.

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 \$331.4 million for the three months ended March 31, 2015, an increase of \$31.1 million, or 10.4%, when compared with the same period of the prior year. Excluding the \$8.0 million impact of acquisitions for the three months ended March 31, 2015, personnel costs increased \$23.1 million, or 7.7%, when compared with the same period of the prior year. The increase, adjusted for the impact of acquisitions, was primarily attributable to higher incentive compensation due to higher revenue and profitability and increased overtime expense due to higher order volumes.

Agents retained \$342.5 million of title premiums generated by agency operations for the three months ended March 31, 2015, which compares with \$336.7 million for the same period of the prior year. The percentage of title premiums retained by agents was 80.3% and 80.0% for the three months ended March 31, 2015 and 2014, respectively. The increase in the percentage of title premiums retained by agents was due to a change in the geographic mix of agency revenues.

Other operating expenses for the title insurance and services segment were \$188.7 million for the three months ended March 31, 2015, an increase of \$18.7 million, or 11.0%, when compared with the same period of the prior year. Excluding the \$6.3 million impact of acquisitions for the three months ended March 31, 2015, other operating expenses increased \$12.4 million, or 7.3%, when compared with the same period of the prior year. The increase, adjusted for the impact of acquisitions, was primarily due to higher production related expenses and higher temporary labor costs driven by higher order volumes.

The provision for policy losses and other claims, expressed as a percentage of title premiums and escrow fees, was 6.5% and 6.0% for the three months ended March 31, 2015 and 2014, respectively. The current quarter rate of 6.5% reflects the ultimate loss rate of 6.0% for the current policy year and a \$4.3 million net increase in the loss reserve estimates for prior policy years. The first quarter of 2014 rate of 6.0% reflected the ultimate loss rate for the 2014 policy year.

Depreciation and amortization expense was \$19.5 million for the three months ended March 31, 2015, an increase of \$1.6 million, or 9.0%, when compared with the same period of the prior year. Excluding the \$1.7 million impact of acquisitions for the three months ended March 31, 2015, depreciation and amortization expense decreased \$70 thousand, or 0.4%, when compared with the same period of the prior year.

Premium taxes were \$12.0 million and \$10.9 million for the three months ended March 31, 2015 and 2014, respectively. Premium taxes as a percentage of title insurance premiums and escrow fees were 1.4% for the three months ended March 31, 2015 and 2014.



In general, the title insurance business is a lower profit margin business when compared to the Company's specialty insurance segment. The lower profit margins 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 months ended March 31, 2015 and 2014 were 6.8% and 4.6%, respectively.

## Specialty Insurance

	Three Months Ended March 31,			
(in thousands, except percentages)	2015	2014	\$ Change	% Change
<b>Revenues</b>				
Direct premiums	\$90,153	\$84,509	\$ 5,644	6.7 %
Information and other	771	470	301	64.0
Net investment income	2,001	1,729	272	15.7
Net realized investment gains	1,610	433	1,177	271.8
	94,535	87,141	7,394	8.5
<b>Expenses</b>				
Personnel costs	15,369	15,514	(145 )	(0.9 )
Other operating expenses	13,347	11,468	1,879	16.4
Provision for policy losses and other claims	46,004	43,667	2,337	5.4
Depreciation and amortization	1,206	1,239	(33 )	(2.7 )
Premium taxes	1,438	1,354	84	6.2
	77,364	73,242	4,122	5.6
Income before income taxes	\$ 17,171	\$ 13,899	\$ 3,272	23.5 %
Margins	18.2 %	16.0 %	2.2 %	13.8 %

Direct premiums were \$90.2 million for the three months ended March 31, 2015, an increase of \$5.6 million, or 6.7%, when compared with the same period of the prior year. The increase was driven by higher premiums earned in the home warranty business and, to a lesser extent, higher premiums earned in the property and casualty business. The increase in the home warranty business was primarily in its renewal and real estate channels and was driven by an increase in the price charged for home warranty residential service contracts and an increase in the number of contracts issued. The increase in the property and casualty business was primarily in its independent broker and direct channels.

Net realized investment gains totaled \$1.6 million and \$0.4 million for the three months ended March 31, 2015 and 2014, respectively, and were from the sales of debt and equity securities.

Personnel costs and other operating expenses were \$28.7 million and \$27.0 million for the three months ended March 31, 2015 and 2014, respectively, an increase of \$1.7 million, or 6.4%, when compared with the same period of the prior year. The increase was primarily related to higher production related expenses and higher agent commission expenses driven by increased volume and revenue.

The provision for home warranty claims, expressed as a percentage of home warranty premiums, was 46.9% and 48.1% for the three months ended March 31, 2015 and 2014, respectively. The decrease in the claims rate was primarily attributable to a decrease in the severity of claims and an increase in the average premium earned per home warranty residential service contract 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 59.1% and 58.4% for the three months ended March 31, 2015 and 2014, respectively. The increase in the claims rate was primarily attributable to a slight increase in both the frequency and severity of claims when compared to the same quarter of the prior year, partially offset by lower costs associated with large loss events.

Premium taxes were \$1.4 million for the three months ended March 31, 2015 and 2014. Premium taxes as a percentage of specialty insurance segment premiums were 1.6% for the three months ended March 31, 2015 and 2014.

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 months ended March 31, 2015 and 2014 were 18.2% and 16.0%, respectively.

## Corporate

	Three Months Ended March 31,			
(in thousands, except percentages)	2015	2014	\$ Change	% Change
<b>Revenues</b>				
Net investment (losses) income	\$(2,827 )	\$719	\$ (3,546 )	NM 1%
	(2,827 )	719	(3,546 )	NM 1
<b>Expenses</b>				
Personnel costs	11,260	10,725	535	5.0
Other operating expenses	6,475	6,824	(349 )	(5.1 )
Depreciation and amortization	122	819	(697 )	(85.1 )
Interest	7,041	3,634	3,407	93.8
	24,898	22,002	2,896	13.2
Loss before income taxes	\$(27,725)	\$(21,283)	\$ (6,442 )	(30.3 )%

(1)Not meaningful

Net investment losses totaled \$2.8 million for the three months ended March 31, 2015 and net investment income totaled \$0.7 million for the three months ended March 31, 2014. The decrease in investment income was primarily attributable to a one-time non-cash cost of \$4.0 million related to the investments associated with the Company's deferred compensation plan.

Corporate personnel costs and other operating expenses were \$17.7 million for the three months ended March 31, 2015, essentially unchanged when compared with \$17.5 million for the three months ended March 31, 2014.

Depreciation and amortization expense was \$0.1 million for the three months ended March 31, 2015, a decrease of \$0.7 million when compared with the same period of the prior year. The decrease is related to a noncomplete asset that was fully amortized during 2014.

Interest expense was \$7.0 million for the three months ended March 31, 2015, an increase of \$3.4 million when compared with the same period of the prior year. The increase was primarily attributable to the Company's issuance of \$300.0 million of debt in November 2014.

## Eliminations

Eliminations primarily represent interest income and related interest expense associated with intercompany notes between the Company's segments, which are eliminated in the condensed consolidated financial statements. The Company's inter-segment eliminations were not material for the three months ended March 31, 2015 and 2014.

## INCOME TAXES

The Company's effective income tax rate (income tax expense as a percentage of income before income taxes) was 35.9% and 38.0% for the three months ended March 31, 2015 and 2014, respectively. The differences in the effective tax rates were primarily due to changes in the ratio of permanent differences to income before income taxes, changes in state and foreign income taxes resulting from fluctuations in the Company's noninsurance and foreign subsidiaries' contribution to pretax profits and changes in the liability related to tax positions reported on the Company's tax returns recorded in 2014.

The Company evaluates the realizability of its deferred tax assets by assessing its valuation allowance and by adjusting the amount of such allowance, if necessary. The factors used to assess the likelihood of realization are the

Company's forecast of future taxable income and available tax planning strategies that could be implemented to realize the deferred tax assets. Failure to achieve forecasted taxable income in the applicable taxing jurisdictions could affect the ultimate realization of deferred tax assets and could result in an increase in the Company's effective tax rate on future earnings.

#### NET INCOME AND NET INCOME ATTRIBUTABLE TO THE COMPANY

Net income for the three months ended March 31, 2015 and 2014 was \$37.8 million and \$21.9 million, respectively. Net income attributable to the Company for the three months ended March 31, 2015 and 2014 was \$37.6 million and \$21.7 million, or \$0.34 and \$0.20 per diluted share, respectively.

## 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, potential business acquisitions and dividends on 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. Due to the Company's ability to generate cash flows from operations and its liquid-asset position, 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 used for operating activities amounted to \$66.3 million and \$104.6 million for the three months ended March 31, 2015 and 2014, respectively, after claim payments, net of recoveries, of \$135.7 million and \$123.0 million, respectively. The principal nonoperating uses of cash and cash equivalents for the three months ended March 31, 2015 and 2014 were purchases of debt and equity securities, business acquisitions, capital expenditures and dividends to common stockholders. The most significant nonoperating sources of cash and cash equivalents for the three months ended March 31, 2015 were proceeds from the sales and maturities of debt and equity securities and increases in the deposit balances at the Company's banking operations. The most significant nonoperating sources of cash and cash equivalents for the three months ended March 31, 2014 were proceeds from the issuance of debt, 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 decreases of \$311.7 million and \$64.4 million for the three months ended March 31, 2015 and 2014, respectively.

The Company continually assesses its capital allocation strategy, including decisions relating to dividends, stock repurchases, capital expenditures, acquisitions and investments. In January 2015, the Company's board of directors approved a first quarter cash dividend of 25 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, industry practice, 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 \$182.9 million remained as of March 31, 2015. 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 three months ended March 31, 2015 and as of March 31, 2015, had repurchased and retired 3.2 million shares of its common stock under the current authorization for a total purchase price of \$67.1 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 potential 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 March 31, 2015, under such regulations, the maximum amount of dividends, loans and advances available to the holding company from its insurance subsidiaries for the remainder of 2015, without prior approval from applicable regulators, was \$570.9 million. 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 March 31, 2015, the holding company's sources of liquidity included \$207.4 million of cash and cash equivalents and \$700.0 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 March 31, 2015, the Company had no outstanding borrowings under the facility and 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 three months ended March 31, 2015, the Company financed securities for funds received totaling \$23.4 million under these agreements. As of March 31, 2015, no amounts remained outstanding under these agreements.

Notes and contracts payable as a percentage of total capitalization was 18.3% and 18.6% at March 31, 2015 and December 31, 2014, respectively.

**Investment Portfolio.** The Company maintains a high quality, liquid investment portfolio that is primarily held at its insurance and banking subsidiaries. As of March 31, 2015, 94% of the Company's investment portfolio consisted of fixed income securities, of which 67% were United States government-backed or rated AAA and 95% were rated or classified as investment grade. Percentages are based on the amortized cost basis of the securities. Credit ratings are based on Standard & Poor's Rating Services and Moody's Investor Service, Inc. published ratings. If a security was rated differently by both rating agencies, the lower of the two ratings was selected.

The table below outlines the composition of the investment portfolio in an unrealized loss position, by credit rating, (percentages are based on the amortized cost basis of the investments) as of March 31, 2015:

March 31, 2015	A Ratings	BBB+	Non Investment
	or	to BBB-	Grade/Not



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	Higher		Ratings		Rated	
U.S. Treasury bonds	100.0	%	0.0	%	0.0	%
Municipal bonds	92.9	%	5.4	%	1.7	%
Foreign bonds	100.0	%	0.0	%	0.0	%
Governmental agency bonds	100.0	%	0.0	%	0.0	%
Governmental agency mortgage-backed securities	100.0	%	0.0	%	0.0	%
Corporate debt securities	24.0	%	28.6	%	47.4	%
Preferred stock	11.5	%	35.3	%	53.2	%
	91.0	%	3.7	%	5.3	%

In addition to its debt and equity investment 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 \$7.4 billion and \$6.3 billion at March 31, 2015 and December 31, 2014, respectively, of which \$2.5 billion and \$2.2 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 and equity 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 \$3.1 billion and \$3.0 billion at March 31, 2015 and December 31, 2014, 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, including investment programs and vendor services arrangements with various financial institutions. The effects of 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 \$2.1 billion and \$2.4 billion at March 31, 2015 and December 31, 2014, 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 return on the proceeds.

At March 31, 2015 and December 31, 2014, the Company was contingently liable for guarantees of indebtedness owed by affiliates and third parties to banks and others totaling \$8.3 million and \$8.9 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 \$8.3 million and \$8.9 million at March 31, 2015 and December 31, 2014, 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 March 31, 2015 and December 31, 2014.

### 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, 2014.

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 March 31, 2015, 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 March 31, 2015, 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
- Levine v. First American Title Insurance Company, filed on February 26, 2009 and pending in the United States District Court for the Eastern District of Pennsylvania,
- 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, and
- Raffone v. First American Title Insurance Company, filed on February 14, 2004 and pending in the Circuit Court, Nassau County, Florida.

All of these lawsuits are putative class actions. A court has only granted class certification in Lewis and Raffone. 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 or, where the Company has been able to make an estimate, the Company believes the amount is immaterial to the condensed consolidated financial statements as a whole.

- purchased minority interests in title insurance agents as an inducement to refer title insurance underwriting business to the Company or gave items of value to title insurance agents and others for referrals of business in violation of the Real Estate Settlement Procedures Act, including
- Edwards v. First American Financial Corporation, filed on June 12, 2007 and pending in the United States District Court for the Central District of California.

In Edwards a narrow class has been certified. For the reasons stated above, the Company has been unable to estimate the possible loss or the range of loss.

- engaged in the unauthorized practice of law, including
- Gale v. First American Title Insurance Company, et al., filed on October 16, 2006 and pending in the United States District Court of Connecticut.

The class originally certified in Gale was subsequently decertified. 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.

- misclassified certain employees, including
- Sager v. Interthinx, Inc., filed on January 23, 2015 and pending in the Superior Court of the State of California, County of Los Angeles.

Sager is a putative class action for which a class has not been certified. For the reasons described above, the Company has not yet been able to assess the probability of loss or estimate the possible loss or the range of loss.

- overcharged or improperly charged fees for products and services, denied home warranty claims, failed to timely file certain documents, and gave items of value to developers, builders 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
- Bushman v. First American Title Insurance Company, et al., filed on November 21, 2013 and pending in the Circuit Court of the State of Michigan, County of Washtenaw,
- Chassen v. First American Financial Corporation, et al., filed on January 22, 2009 and pending in the United States District Court of New Jersey,
- Gunning v. First American Title Insurance Company, filed on July 14, 2008 and pending in the United States District Court for the Eastern District of Kentucky,
- 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,
- 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,
- Snyder v. First American Financial Corporation, et al., filed on June 21, 2014 and pending in the United States District Court for the District of Colorado,
- Wilmot v. First American Financial Corporation, et al., filed on April 20, 2007 and pending in the Superior Court of the State of California, County of Los Angeles, and
- In re First American Home Buyers Protection Corporation, consolidated on October 9, 2014 and pending in the United States District Court for the Southern District of California.

All of these lawsuits, except Kaufman and Kirk, 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, plaintiff has filed a notice of appeal and the Company filed a cross 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 immaterial to the condensed consolidated financial statements as a whole.

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

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

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

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

#### Item 1A. Risk Factors.

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

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

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

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



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

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

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, historically 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, settlement service providers and property and casualty insurance companies, and

instruments, such as mortgage-backed securities, which may be negatively impacted by these conditions. The Company also owns a federal savings bank into which it deposits some of its own funds and some funds 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 March 31, 2015 are \$1.0 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. 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 heightened scrutiny by regulators, legislators, the media and plaintiffs' attorneys. Though often directed at the industry generally, these groups may also focus their attention directly on the Company'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. Departments of insurance in the various states, 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.

We increasingly utilize social media to communicate with customers, vendors and other individuals interested in our Company. Information delivered via social media can be easily accessed and rapidly disseminated, and the use of social media by us and other parties 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.

7. The breadth of the Consumer Financial Protection Bureau's rulemaking and supervisory powers may increase our costs and require changes in our business

The Consumer Financial Protection Bureau ("CFPB") has broad authority to regulate, among other areas, the mortgage and real estate markets, including our domestic subsidiaries that operate in the settlement services businesses, in matters pertaining to consumers. This authority includes the enforcement of federal consumer financial laws, including the Real Estate Settlement Procedures Act. The manner in which the CFPB will utilize its rulemaking and supervisory powers is not fully known. In addition to other activities, the CFPB has proposed and implemented regulations related to the simplification of mortgage disclosures and the required delivery of documentation to consumers in connection with the closing of federally-regulated mortgage loans. Extensive efforts have been required to implement these and other CFPB regulations, and may be required to implement future regulations. Regulations issued by the CFPB, or the manner in which it interprets and enforces existing consumer protection laws, also could impact the way in which we conduct our business, require alteration to existing systems, products and services and otherwise increase our expenses or reduce our revenues. Accordingly, the impact of the CFPB on our business is uncertain.

8. The CFPB's integrated disclosure rules necessitate significant changes to the Company's business processes, could lead to market disruption and may otherwise adversely affect the Company

Compliance with the CFPB's integrated disclosure rules will require participants in the mortgage market, including the Company, to make significant changes to the manner in which they create, process, and deliver certain disclosures to consumers in connection with mortgage loan applications made on or after August 1, 2015. Readiness for, and compliance with, these rules, requires extensive planning; changes to systems, forms and processes; as well as heightened coordination among market participants, including by settlement service providers, such as the Company and its agents, with lenders and others. While the Company is actively preparing for compliance, the success of the implementation effort is also dependent on the efforts of other market participants. There can be no assurance that the Company, its agents or other market participants will be successful in their implementation efforts, or that consumers or the CFPB will be satisfied with the manner in which the new rules have been implemented. These changes also could lead to lower mortgage volumes and/or delays in mortgage processing, particularly in the early stages of

implementation. Accordingly, in addition to the significant time and expense associated with readiness and compliance with the new integrated disclosure rules, the rules may lead to market disruption, loss of business, unexpected expenses or other adverse effects.

9. 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.

10. Reform of government-sponsored enterprises could negatively impact the Company

Historically, a substantial proportion of home loans originated in the United States were sold to and, generally, resold in a securitized form by, the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac). As a condition to the purchase of a home loan Fannie Mae and Freddie Mac generally required

the purchase of title insurance for their benefit and, as applicable, the benefit of the holders of home loans they may have securitized. The federal government currently is considering various alternatives to reform Fannie Mae and Freddie Mac. The role, if any, that these enterprises or other enterprises fulfilling a similar function will play in the mortgage process following the adoption of any reforms is not currently known. The timing of the adoption and, thereafter, the implementation of the reforms is similarly unknown. Due to the significance of the role of these enterprises, the mortgage process itself may substantially change as a result of these reforms and related discussions. It is possible that these entities, as reformed, or the successors to these entities may require changes to the way title insurance is priced or delivered, changes to standard policy terms or other changes which may make the title insurance business less profitable. These reforms may also alter the home loan market, such as by causing higher mortgage interest rates due to decreased governmental support of mortgage-backed securities. These consequences could be materially adverse to the Company and its financial condition.

#### 11. 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.

#### 12. Changes in the Company's relationships with large mortgage lenders or government-sponsored enterprises could adversely affect the Company

The mortgage markets in the United States and Canada are 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.

#### 13. 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 Ltd., "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 \$978.7 million of total statutory capital and surplus as of December 31, 2014. 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.

14. 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.

15. The Company's pension plan is currently underfunded and pension expenses and funding obligations could increase significantly as a result of decreases in interest rates or weak performance of financial markets and its effect on plan assets

The Company is responsible for the obligations of its defined benefit pension plan, which it assumed from its former parent, The First American Corporation, on June 1, 2010 in connection with the spin-off transaction which was consummated on that date. The plan was closed to new entrants effective December 31, 2001 and amended to "freeze" all benefit accruals as of April 30, 2008. The Company's future funding obligations for this plan depend upon, among other factors, the future performance of assets held in trust for the plan and interest rates. The pension plan was underfunded as of March 31, 2015 by \$105.0 million and the Company may need to make significant contributions to the plan. In addition, pension expenses and funding requirements may also be greater than currently anticipated if the market values of the assets held by the pension plan decline or if the other assumptions regarding plan earnings, expenses and interest rates require adjustment. The Company's obligations under this plan could have a material adverse effect on its results of operations, financial condition and liquidity.

16. 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 \$99.8 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.

17. 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. 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.

18. The Company's risk mitigation efforts may prove inadequate



The Company assumes risks in the ordinary course of its business, including through the issuance of title insurance policies and the provision of other products and services. The Company mitigates these risks through a number of different means, including the implementation of underwriting policies and procedures and other mechanisms for assessing risk. However, underwriting of title insurance policies and other risk-assumption decisions frequently involve a substantial degree of individual judgment. The Company's risk mitigation efforts or the reliability of any necessary judgment may prove inadequate, especially in situations where the Company or individuals involved in risk taking decisions are encouraged by customers or others, or because of competitive pressures, to assume risks or to expeditiously make risk determinations. This circumstance could have an adverse effect on the Company's results of operations, financial condition and liquidity.

19. Systems damage, failures, interruptions and intrusions, wire transfer errors 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 data centers 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 attacks. 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-related events are wholly or partially beyond the Company's control, such as natural disasters, vendor failures to satisfy service level requirements and power or telecommunications failures. These incidents, regardless of their underlying causes, could disrupt the Company's business and could also result in the loss or unauthorized release, gathering, monitoring or destruction of confidential, proprietary and other information pertaining to the Company, its customers, employees, agents or suppliers.

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

The Company also 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.

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.

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

The Company utilizes lower cost labor in foreign 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 in these countries. Weakness of the United States dollar in relation to the currencies used in these foreign countries may also reduce the savings achievable through this strategy. Furthermore, the practice of utilizing labor based in foreign countries is subject to heightened scrutiny in the United States and, as a result, some of the Company's customers may

require it to use labor based in the United States. Laws or regulations that require the Company to use labor based in the United States or effectively increase the cost of the Company's foreign labor also could be enacted. The Company may not be able to pass on these increased costs to its customers.

21. 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.

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

The Company is a holding company whose primary assets are investments in its operating subsidiaries. The Company's ability to pay dividends is dependent on the ability of its subsidiaries to pay dividends or repay funds. If the Company's operating subsidiaries are not able to pay dividends or repay funds, the Company may not be able to fulfill parent company obligations and/or declare and pay dividends to its stockholders. Moreover, pursuant to insurance and other regulations under which the Company's insurance subsidiaries operate, the amount of dividends, loans and advances available is limited. As of March 31, 2015, under such regulations, the maximum amount of dividends, loans and advances available in 2015 from these insurance subsidiaries, without prior approval from applicable regulators, was \$570.9 million.

23. 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: April 23, 2015

EXHIBIT INDEX

Exhibit No.	Description	Location
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.