

STEWART INFORMATION SERVICES CORP  
Form 10-K  
March 06, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

(Mark One)

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

For the fiscal year ended December 31, 2012

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-02658

**STEWART INFORMATION SERVICES CORPORATION**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**74-1677330**  
(I.R.S. Employer  
Identification No.)

**1980 Post Oak Blvd., Houston TX**  
(Address of principal executive offices)

**77056**  
(Zip Code)

**Registrant's telephone number, including area code: (713) 625-8100**

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

**Common Stock, \$1 par value**  
(Title of each class of stock)

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

**Securities registered pursuant to Section 12(g) of the Act: None**

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

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

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

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

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

The aggregate market value of the Common Stock (based upon the closing sales price of the Common Stock of Stewart Information Services Corporation, as reported by the NYSE on June 30, 2012) held by non-affiliates of the Registrant was approximately \$280,935,000.

At March 1, 2013, the following shares of each of the registrant's classes of stock were outstanding:

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Common, \$1 par value	20,045,307
Class B Common, \$1 par value	1,050,012

**Documents Incorporated by Reference**

Portions of the definitive proxy statement (the Proxy Statement), relating to the annual meeting of the registrant's stockholders to be held May 3, 2013, are incorporated by reference in Part III of this document.

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**FORM 10-K ANNUAL REPORT  
YEAR ENDED DECEMBER 31, 2012**

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As used in this report, we, us, our, the Company and Stewart mean Stewart Information Services Corporation and our subsidiaries, unless the context indicates otherwise.

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**PART I**

**Item 1. Business**

We are a Delaware corporation formed in 1970. We and our predecessors have been engaged in the title business since 1893.

Stewart Information Services Corporation (NYSE-STC) is a customer-focused, global title insurance and real estate services company offering products and services through our direct operations, network of approved agencies and other companies within the Stewart family. Stewart provides these services to homebuyers and sellers; residential and commercial real estate professionals; mortgage lenders and servicers; title agencies and real estate attorneys; home builders; and United States and foreign governments. Stewart also provides loan origination and servicing support; loan review services; loss mitigation; REO asset management; home and personal insurance services; and technology to streamline the real estate process.

Our international division delivers products and services protecting and promoting private land ownership worldwide. Currently, our primary international operations are in Canada, the United Kingdom, Central Europe, Central America and Australia.

We report our business in three segments: title insurance and related services, mortgage services and corporate. The financial information related to these segments is discussed in Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 20 to our audited consolidated financial statements.

**Title Insurance Services**

Title insurance and related services (title segment) include the functions of searching, examining, closing and insuring the condition of the title to real property. The title segment also includes certain ancillary services provided for tax-deferred exchanges and home and personal insurance services.

Examination and closing. The purpose of a title examination is to ascertain the ownership of the property being transferred, debts that are owed on it and the scope of the title policy coverage. This involves searching for and examining documents such as deeds, mortgages, wills, divorce decrees, court judgments, liens, paving assessments and tax records.

At the closing or settlement of a sale transaction, the seller executes and delivers a deed to the new owner. The buyer typically signs new mortgage documents. Closing funds are then disbursed to the seller, the prior lender, real estate brokers, the title company and others. The documents are then recorded in the public records. A title insurance policy is generally issued to both the new lender and the owner.

Title insurance policies. Lenders in the United States generally require title insurance as a condition to making a loan on real estate, including securitized lending. This is to assure lenders of the priority of their lien position. The purchasers of the property want insurance to protect against claims that may arise against the title to the property. The face amount of the policy is normally the purchase price or the amount of the related loan.

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Title insurance is substantially different from other types of insurance. Fire, auto, health and life insurance protect against future losses and events. In contrast, title insurance insures against losses from past events and seeks to protect the public by eliminating covered risks through the examination and settlement process. In essence, a title insurance policy provides a warranty to the policyholder that the title to the property is free from defects that might impair ownership rights. Most other forms of insurance provide protection for a limited period of time and, hence the policy must be periodically renewed. Title insurance, however, is issued for a one-time premium and the policy provides protection for as long as the owner owns the property or has liability in connection with the property. Also, a title insurance policy does not have a finite contract term, whereas most other lines of insurance have a definite beginning and ending date for coverage. Although a title insurance policy provides protection as long as the owner owns the property being covered, the title insurance company generally does not have information about which policies are still effective. Most other lines of insurance receive periodic premium payments and policy renewals thereby allowing the insurance company to know which policies are effective.

Investments in debt securities. Our title insurance underwriters maintain investments in accordance with certain statutory requirements for the funding of statutory premium reserves and state deposits. We have established policies and procedures to minimize our exposure to changes in the fair values of our investments. These policies include retaining an investment advisory firm, emphasizing credit quality, managing portfolio duration, maintaining or increasing investment income and actively monitoring profile and security mix based upon market conditions.

Losses. Losses on policies occur when a title defect is not discovered during the examination and settlement process. Reasons for losses include forgeries, misrepresentations, unrecorded or undiscovered liens, the failure to pay off existing liens, mortgage lending fraud, mishandling or defalcation of settlement funds, issuance by title agencies of unauthorized coverage and defending insureds when covered claims are filed against their interest in the property.

Some claimants seek damages in excess of policy limits. Those claims are based on various legal theories. We vigorously defend against spurious claims and provide protection for covered claims up to policy limits. We have from time-to-time incurred losses in excess of policy limits.

Experience shows that most policy claims and claim payments are made in the first six years after the policy has been issued, although claims can also be incurred and paid many years later. By their nature, claims are often complex, vary greatly in dollar amounts and are affected by economic and market conditions and the legal environment existing at the time claims are processed.

Our liability for estimated title losses comprises both known claims and our estimate of claims that may be reported in the future. The amount of our loss reserve represents the aggregate future payments (net of recoveries) that we expect to incur on policy and escrow losses and in costs to settle claims. In accordance with industry practice, these amounts have not been discounted to their present values.

Estimating future title loss payments is challenging because of the complex nature of title claims, the length of time over which claims are paid, the significantly varying dollar amounts of individual claims and other factors. Estimated provisions for current year policy losses are charged to income in the same year the related premium revenues are recognized. The amounts provided for policy losses are based on reported claims, historical loss payment experience, title industry averages and the current legal and economic environment. Actual loss payment experience relating to policies issued in previous years, including the impact of large losses, is the primary reason for increases or decreases in our loss provision.

Amounts shown as our estimated liability for future loss payments are continually reviewed by us for reasonableness and adjusted as appropriate. We have consistently followed the same basic method of estimating and recording our loss reserves for more than 10 years. As part of our process, we also obtain input from third-party actuaries regarding our methodology and resulting reserve calculations. While we are responsible for determining our loss reserves, we utilize this actuarial input to assess the overall reasonableness of our reserve estimation.

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**Factors affecting revenues.** Title insurance revenues are closely related to the level of activity in the real estate markets we serve and the prices at which real estate sales are made. Real estate sales are directly affected by the availability and cost of money to finance purchases. Other factors include consumer confidence and demand by buyers. These factors may override the seasonal nature of the title business. Generally, our first quarter is the least active and our third and fourth quarters are the most active in terms of title insurance revenues.

Selected information from the U.S. Department of Housing and Urban Development and National Association of Realtors® for the U.S. real estate industry follows (2012 figures are preliminary and subject to revision):

	2012	2011	2010
New home sales in millions	0.37	0.30	0.32
Existing home sales in millions	4.65	4.26	4.19
Existing home sales median sales price in \$ thousands	176.6	166.1	172.9

**Customers.** The primary sources of title insurance business are attorneys, builders, developers, home buyers and home sellers, lenders and real estate brokers and agents. No one customer was responsible for as much as 10% or more of our consolidated revenues in any of the last three years. Titles insured include residential and commercial properties, undeveloped acreage, farms, ranches, wind and solar power installations and water rights.

Service, location, financial strength, size and related factors affect customer acceptance. Increasing market share is accomplished primarily by providing superior service. The parties to a closing are concerned with personal schedules and the interest and other costs associated with any delays in the settlement. The rates charged to customers are regulated, to varying degrees, in many states.

The financial strength and stability of the title underwriter are important factors in maintaining and increasing our agency network. We are rated as investment grade by the title industry's leading rating companies. Our principal underwriter, Stewart Title Guaranty Company (Guaranty) is currently rated A by Demotech, Inc., BBB+ by Fitch, B++ by A. M. Best and B- by Kroll Bond Rating Agency.

**Market share.** Title insurance statistics are compiled quarterly by the title industry's national trade association. Based on 2012 unconsolidated statutory net premiums written through September 30, 2012, Guaranty is one of the leading title insurers in the United States.

Our principal competitors are Fidelity National Financial, Inc. (which includes Fidelity National Title Insurance Company, Chicago Title Insurance Company, Commonwealth Land Title Insurance Company, and Alamo Title Insurance), Old Republic Title Insurance Group, which includes Old Republic National Title Insurance Company, and The First American Corporation, which includes First American Title Insurance Company. Like most title insurers, we also compete with abstractors, attorneys who issue title opinions and attorney-owned title insurance funds. A number of homebuilders, financial institutions, real estate brokers and others own or control title insurance agencies, some of which issue policies underwritten by Guaranty.

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Title insurance revenues by geographic location. The approximate amounts and percentages of our consolidated title operating revenues were:

	Amounts (\$ millions)			Percentages		
	2012	2011	2010	2012	2011	2010
Texas	299	247	244	17	16	16
California	204	181	203	12	12	13
New York	190	165	136	11	11	9
International	117	109	98	7	7	6
Florida	71	58	71	4	4	5
All others	845	745	788	49	50	51
	1,726	1,505	1,540	100	100	100

Regulations. Title insurance companies are subject to comprehensive state regulations covering premium rates, agency licensing, policy forms, trade practices, reserve requirements, investments and the transfer of funds between an insurer and its parent or its subsidiaries and any similar related party transactions. Kickbacks and similar practices are prohibited by most state and federal laws.

**Mortgage Services**

Our mortgage services segment includes a diverse group of products and services provided to multiple markets. These services are provided principally through our Stewart Lender Services (SLS), PropertyInfo® Corporation and Stewart Government Services businesses.

SLS offers origination support, loss mitigation, default, and post-closing services to residential mortgage lenders, servicers and investors. Loss mitigation products include loan modification, loan review, loan default and REO asset recovery services. SLS also offers outsourcing solutions for post-closing and servicing support to lenders.

PropertyInfo® Corporation offers technology that a title business requires. PropertyInfo® offers a production system, AIM+ , along with web-based search tools designed to increase the processing speed of title examinations by connecting all aspects of the title examination process to proprietary title information databases and to public land and court record information sources.

Factors affecting revenues. As in the title segment, mortgage services revenues, particularly those generated by lender services, are closely related to the level of activity in the real estate market, including the volume of foreclosure or other distressed property activity. Revenues related to many services are generated on a project basis.

Companies that compete with our mortgage services companies vary across a wide range of industries. In the mortgage-related products and services area, competitors include the major title insurance underwriters mentioned under Title Market share as well as other real estate technology and business process outsourcing providers. In some cases the competitor may be the customer itself. For example, certain services offered by SLS can be, or historically have been, performed by internal departments of large mortgage lenders.

Customers. Customers for our mortgage services products and services primarily include mortgage lenders and servicers, mortgage brokers, mortgage investors and government entities.

Many of the services and products offered by our mortgage services segment are used by professionals and intermediaries who have been retained to assist consumers with the sale, purchase, mortgage, transfer, recording and servicing of real estate-related transactions. To that end, timely and accurate services are critical to our customers since these factors directly affect the service they provide to their customers. Financial strength, marketplace presence and reputation as a technology innovator are important factors in attracting new business.



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### **Corporate**

The corporate segment consists of the expenses of the parent holding company and certain other corporate overhead expenses not allocated to the lines of business. We periodically review our allocation models and may make adjustments to the amounts charged to the business units as deemed appropriate. Underwriter investment income is recorded in the corporate segment.

### **General**

**Internal Technology.** Our internally developed title production technology, is increasing productivity in our core title business, while reducing the time involved in the real estate closing process for lenders, real estate professionals and consumers.

**Trademarks.** We have developed numerous automated products and processes that are crucial to both our title and mortgage services segments. These systems automate most facets of the real estate transaction. Among these trademarked products and processes are AIM+ , E-Titl®, PropertyInfo®, SureClose®, TitleSearch®, eClosingRoom™ and Virtual Underwriter®. We consider these trademarks, which are perpetual in duration, to be important to our business.

**Employees.** As of December 31, 2012, we employed approximately 6,300 people. We consider our relationship with our employees to be good.

**Available information.** We file annual, quarterly and other reports and information with the Securities and Exchange Commission (SEC) under the Securities Exchange Act of 1934, as amended (Exchange Act). You may read and copy any material that we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain additional information about the Public Reference Room by calling the SEC at (800) SEC-0330. In addition, the SEC maintains an Internet site ([www.sec.gov](http://www.sec.gov)) that contains reports, proxy and other information statements, and other information regarding issuers that file electronically with the SEC.

We also make available upon written request, free of charge, or through our Internet site ([www.stewart.com](http://www.stewart.com)), our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, Code of Ethics and, if applicable, amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

**Transfer agent.** Our transfer agent is Computershare, which is located at 250 Royall St., Canton, MA, 02021. Its phone number is (888) 478-2392 and website is [www.computershare.com](http://www.computershare.com).

**CEO and CFO Certifications.** The CEO and CFO certifications required under Section 302 of the Sarbanes-Oxley Act are filed as exhibits to our 2012 Form 10-K. Stewart Information Services Corporation submitted a Section 12(a) CEO Certification to the New York Stock Exchange in 2012.

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### **Item 1A. Risk Factors**

You should consider the following risk factors, as well as the other information presented in this report and our other filings with the SEC, in evaluating our business and any investment in Stewart. These risks could materially and adversely affect our business, financial condition and results of operations. In that event, the trading price of our Common Stock could decline materially.

***Adverse changes in the levels of real estate activity reduce our revenues.***

Our financial condition and results of operations are affected by changes in economic conditions, particularly mortgage interest rates, credit availability, real estate prices and consumer confidence. Our revenues and earnings have fluctuated in the past and we expect them to fluctuate in the future.

The demand for our title insurance-related and mortgage services offerings depends in large part on the volume of residential and commercial real estate transactions. The volume of these transactions historically has been influenced by such factors as mortgage interest rates, availability of financing and the overall state of the economy. Typically, when interest rates are increasing or when the economy is experiencing a downturn, real estate activity declines. As a result, the title insurance industry tends to experience decreased revenues and earnings. Increases in interest rates also may have an adverse impact on our bond portfolio and the amount of interest we pay on our floating-rate bank debt.

Our revenues and results of operations have been and could continue to be adversely affected as a result of the decline in home prices, real estate activity and the availability of financing alternatives. In addition, continued weakness or further adverse changes in the level of real estate activity could have a material adverse effect on our consolidated financial condition or results of operations.

***Our claims experience may require us to increase our provision for title losses or to record additional reserves, either of which would adversely affect our earnings.***

Estimating future loss payments is difficult, and our assumptions about future losses may prove inaccurate. Provisions for policy losses on policies written within a given year are charged to income in the same year the related premium revenues are recognized. The amounts provided are based on reported claims, historical loss payment experience, title industry averages and the current legal and economic environment. Losses that are higher than anticipated are an indication that total losses for a given policy year may be higher than originally calculated. Changes in the total estimated future loss for prior policy years are recorded in the period in which the estimate changes. Claims are often complex and involve uncertainties as to the dollar amount and timing of individual payments. Claims are often paid many years after a policy is issued. From time-to-time, we experience large losses, including losses from independent agency defalcations, from title policies that have been issued or worsening loss payment experience, any of which may require us to increase our title loss reserves. These events are unpredictable and adversely affect our earnings. Provisions for strengthening policy loss reserves were \$4.8 million for the year ended 2010.

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***Competition in the title insurance industry affects our revenues.***

Competition in the title insurance industry is intense, particularly with respect to price, service and expertise. Larger commercial customers and mortgage originators also look to the size and financial strength of the title insurer. Although we are one of the leading title insurance underwriters based on market share, Fidelity National Financial, Inc. and The First American Corporation each has substantially greater revenues than we do. Their holding companies have significantly greater capital than we do. Although we are not aware of any current initiatives to reduce regulatory barriers to entering our industry, any such reduction could result in new competitors, including financial institutions, entering the title insurance business. Competition among the major title insurance companies and any new entrants could lower our premium and fee revenues. From time-to-time, new entrants enter the marketplace with alternative products to traditional title insurance, although many of these alternative products have been disallowed by title insurance regulators. These alternative products, if permitted by regulators, could adversely affect our revenues and earnings.

***Availability of credit may reduce our liquidity and negatively impact our ability to fund operating losses or initiatives.***

As a result of our past history of operating losses, we may not be able to obtain, on acceptable terms, the financing necessary to fund our operations or initiatives. However, we expect that cash flows from operations and cash available from our underwriters, subject to regulatory restrictions, will be sufficient to fund our operations, pay our claims and fund initiatives. To the extent that these funds are not sufficient, we may be required to borrow funds on less favorable terms or seek funding from the equity market, which may be on terms that are dilutive to existing shareholders.

***A downgrade of our underwriters by rating agencies may reduce our revenues.***

Ratings are a significant component in determining the competitiveness of insurance companies. Our principal underwriter, Guaranty is currently rated A by Demotech, Inc., BBB+ by Fitch, B++ by A. M. Best and B- by Kroll Bond Rating Agency. Guaranty has historically been highly rated by the rating agencies that cover us. These ratings are not credit ratings. Instead, the ratings are based on quantitative, and in some cases qualitative, information and reflect the conclusions of the rating agencies with respect to our financial strength, results of operations and ability to pay policyholder claims. Our ratings are subject to continual review by the rating agencies and we cannot be assured that our current ratings will be maintained. If our ratings are downgraded from current levels by the rating agencies, our ability to retain existing customers and develop new customer relationships may be negatively impacted, which could result in an adverse impact on our results of operations.

***Our insurance subsidiaries must comply with extensive government regulations. These regulations could adversely affect our ability to increase our revenues and operating results.***

The Consumer Financial Protection Bureau (CFPB) is charged with protecting consumers by enforcing Federal consumer protective laws and regulations. The CFPB is an independent unit inside, and funded by, the United States Federal Reserve System. Its jurisdiction includes banks, credit unions, securities firms, payday lenders, mortgage servicing operations, foreclosure relief services, debt collectors and other financial companies. The nature and extent of these regulations include, but are not limited to:

conducting rule-making, supervision, and enforcement for Federal consumer protection laws;

restricting unfair, deceptive, or abusive acts or practices;

taking consumer complaints;

promoting financial education;

researching consumer behavior;

monitoring financial markets for new risks to consumers; and

enforcing laws that outlaw discrimination and other unfair treatment in consumer finance.

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Governmental authorities regulate our insurance subsidiaries in the various states and international jurisdictions in which we do business. These regulations generally are intended for the protection of policyholders rather than stockholders. The nature and extent of these regulations vary from jurisdiction to jurisdiction, but typically involve:

approving or setting of insurance premium rates;

standards of solvency and minimum amounts of statutory capital and surplus that must be maintained;

limitations on types and amounts of investments;

establishing reserves, including statutory premium reserves, for losses and loss adjustment expenses;

regulating underwriting and marketing practices;

regulating dividend payments and other transactions among affiliates;

prior approval for the acquisition and control of an insurance company or of any company controlling an insurance company;

licensing of insurers, agencies and, in certain states, escrow officers;

regulation of reinsurance;

restrictions on the size of risks that may be insured by a single company;

deposits of securities for the benefit of policyholders;

approval of policy forms;

methods of accounting; and

filing of annual and other reports with respect to financial condition and other matters.

These regulations may impede or impose burdensome conditions on rate increases or other actions that we might want to take to enhance our operating results.

We may also be subject to additional federal regulations prescribed by legislation such as the Dodd-Frank Act or by regulations issued by the Department of Labor.

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Changes in regulations may adversely affect us. In addition, state regulators perform periodic examinations of insurance companies, which could result in increased compliance or litigation expenses.

***Rapid changes in our industry require secure, timely and cost-effective technological responses. Our earnings may be adversely affected if we are unable to effectively use technology to address regulatory changes and increase productivity.***

We believe that our future success depends on our ability to anticipate technological changes and to offer products and services that meet evolving standards on a timely and cost-effective basis. To do so, requires a flexible technology architecture which can continuously comply with changing regulations, improve productivity, reduce risk and enhance the customer experience. Our earnings could also be adversely affected by unanticipated downtime in our technology although we have never experienced such. We also maintain insurance coverage to mitigate our risk of loss from the unintended disclosure of personal data.

***We rely on dividends from our insurance underwriting subsidiaries.***

We are a holding company and our principal assets are our insurance underwriting subsidiaries. Consequently, we may depend on receiving sufficient dividends from our insurance subsidiaries to meet our debt service obligations and to pay our operating expenses and dividends to our stockholders. The insurance statutes and regulations of some states require us to maintain a minimum amount of statutory capital and restrict the amount of dividends that our insurance subsidiaries may pay to us. Guaranty is a wholly owned subsidiary of Stewart and the principal source of our cash flow. In this regard, the ability of Guaranty to pay dividends to us is dependent on the approval of the Texas Insurance Commissioner. As of December 31, 2012, under Texas insurance law, Guaranty could pay dividends or make distributions of up to \$85.8 million in 2013 after approval of the Texas Insurance Commissioner. However, Guaranty voluntarily restricts dividends to us so that it can grow its statutory surplus, maintain liquidity at competitive levels and maintain its high ratings. Guaranty did not pay a dividend in any of the three years ended December 31, 2012 and does not anticipate paying a dividend in 2013.

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### ***Risks include claims by large classes of claimants.***

We are periodically involved in litigation arising in the ordinary course of business. In addition, we are currently, and have been in the past, subject to claims and litigation from large classes of claimants seeking substantial damages not arising in the ordinary course of business. Material pending legal proceedings, if any, not in the ordinary course of business, are disclosed in Item 3 Legal Proceedings included elsewhere in this report. To date, the impact of the outcome of these proceedings has not been material to our consolidated financial condition or results of operations. However, an unfavorable outcome in any litigation, claim or investigation against us could have an adverse effect on our consolidated financial condition or results of operations.

### ***Anti-takeover provisions in our certificate of incorporation and by-laws may make a takeover of us difficult. This may reduce the opportunity for our stockholders to obtain a takeover premium for their shares of our Common Stock.***

Our certificate of incorporation and by-laws, as well as Delaware corporation law and the insurance laws of various states, all contain provisions that could have the effect of discouraging a prospective acquirer from making a tender offer for our shares, or that may otherwise delay, defer or prevent a change in control of Stewart.

The holders of our Class B Common Stock have the right to elect four of our nine directors. Pursuant to our by-laws, the vote of six directors is required to constitute an act by the Board of Directors. Accordingly, the affirmative vote of at least one of the directors elected by the holders of the Class B Common Stock is required for any action to be taken by the Board of Directors. The foregoing provision of our by-laws may not be amended or repealed without the affirmative vote of at least a majority of the outstanding shares of each class of our capital stock, voting as separate classes.

The voting rights of the holders of our Class B Common Stock may have the effect of rendering more difficult or discouraging unsolicited tender offers, merger proposals, proxy contests or other takeover proposals to acquire control of Stewart.

### **Item 1B. Unresolved Staff Comments**

None.

### **Item 2. Properties**

We lease under a non-cancelable operating lease expiring in 2016 approximately 242,000 square feet in an office building in Houston, Texas, which is used for our corporate offices and for offices of several of our subsidiaries. In addition, we lease offices at approximately 495 additional locations that are used for branch offices, production, administrative and technology centers. These additional locations include significant leased facilities in Austin, Los Angeles, New York, Dallas, Toronto, San Diego and Denver.

Our leases expire from 2013 through 2021 and have an average term of four years, although our typical lease term ranges from three to five years. We believe we will not have any difficulty obtaining renewals of leases as they expire or, alternatively, leasing comparable properties. The aggregate annual rent expense under all leases was approximately \$39.1 million in 2012.

We also own several office buildings located in Arizona, Colorado, New York and Texas. These owned properties are not material to our consolidated financial condition. We consider all buildings and equipment that we own or lease to be well maintained, adequately insured and generally sufficient for our purposes.

**Table of Contents****Item 3. Legal Proceedings**

See discussion of legal proceedings in Note 19 to the Consolidated Financial Statements included in Item 15 of Part IV of this Report, which is incorporated by reference into this Part I, Item 3 of this Annual Report on Form 10-K for the year ended December 31, 2012.

**Item 4. Mine Safety Disclosures**

None.

**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issue Purchases of Equity Securities**

Our Common Stock is listed on the New York Stock Exchange (NYSE) under the symbol `STC`. The following table sets forth the high and low sales prices of our Common Stock for each fiscal period indicated, as reported by the NYSE.

	High	Low
2012:		
First quarter	\$ 14.27	\$ 11.54
Second quarter	16.28	12.99
Third quarter	20.85	13.19
Fourth quarter	28.35	19.95
2011:		
First quarter	\$ 12.74	\$ 10.00
Second quarter	11.13	9.25
Third quarter	11.02	8.31
Fourth quarter	12.16	8.13

As of March 1, 2013, the number of stockholders of record was approximately 6,400 and the price of one share of our Common Stock was \$23.64.

The Board of Directors declared an annual cash dividend of \$0.10 and \$0.05 per share payable December 28, 2012 and December 29, 2011, respectively, to Common stockholders of record on December 14, 2012 and December 15, 2011, respectively. Our certificate of incorporation provides that no cash dividends may be paid on our Class B Common Stock.

We had a book value per share of \$29.91 and \$24.01 at December 31, 2012 and 2011, respectively. As of December 31, 2012, book value per share was based on approximately \$580.4 million in stockholders' equity and 19,403,765 shares of Common and Class B Common Stock outstanding, excluding the effects of possible conversion of senior convertible notes into common shares. As of December 31, 2011, book value per share was based on approximately \$463.5 million in stockholders' equity and 19,303,844 shares of Common and Class B Common Stock outstanding, excluding the effects of possible conversion of senior convertible notes into common shares.



**Table of Contents****Performance graph**

The following graph compares the yearly percentage change in our cumulative total stockholder return on Common Stock with the cumulative total return of the Russell 2000 Index and the Russell 2000 Financial Services Sector Index for the five years ended December 31, 2012. The graph assumes that the value of the investment in our Common Stock and each index was \$100 at December 31, 2007 and that all dividends were reinvested.

	2007	2008	2009	2010	2011	2012
Stewart	100.00	90.42	43.61	44.77	45.04	101.79
Russell 2000	100.00	66.21	84.20	106.81	102.35	119.04
Russell 2000 Financial Services Sector	100.00	74.88	74.82	90.06	87.46	106.39

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

**Table of Contents****Item 6. Selected Financial Data**

The following table sets forth selected consolidated financial data, which were derived from our consolidated financial statements and should be read in conjunction with our audited consolidated financial statements, including the Notes thereto, beginning on page F-1 of this Report. See also Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations.

	2012	2011	2010	2009	2008
	(\$ millions, except share and per share data)				
Total revenues	1,910.4	1,634.9	1,672.4	1,707.3	1,555.3
Title operating revenues	1,726.2	1,505.0	1,540.5	1,610.0	1,507.2
Mortgage services revenues	162.8	112.1	91.7	69.1	47.2
Investment income	13.8	15.5	18.4	20.8	29.1
Investment gains (losses)	7.6	2.3	21.8	7.4	(28.2)
Title loss provisions	140.0	142.1	148.4	182.8	169.4
% title operating revenues	8.1	9.4	9.6	11.3	11.2
Pretax earnings (loss) <sup>(1)</sup>	89.3	18.0	2.9	(62.2)	(237.5)
Net earnings (loss) attributable to Stewart	109.2	2.3	(12.6)	(51.0)	(247.5)
Cash provided (used) by operations	120.5	23.4	41.2	(17.0)	(104.8)
Total assets	1,291.2	1,156.1	1,141.2	1,369.2	1,448.4
Long-term debt	71.2	76.2	71.2	67.8	71.3
Stockholders' equity	580.4	463.5	448.3	462.1	501.2
Per share data:					
Average shares dilutive (millions)	24.4	19.1	18.3	18.2	18.1
Basic earnings (loss) attributable to Stewart	5.66	0.12	(0.69)	(2.80)	(13.68)
Diluted earnings (loss) attributable to Stewart	4.61	0.12	(0.69)	(2.80)	(13.68)
Cash dividends	0.10	0.05	0.05	0.05	0.10
Stockholders' equity	29.91	24.01	24.40	25.34	27.63
Market price:					
High	28.35	12.74	14.93	23.75	36.42
Low	11.54	8.13	7.80	8.45	5.67
Year end	26.00	11.55	11.53	11.28	23.49

<sup>(1)</sup> Pretax figures are before noncontrolling interests

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

**MANAGEMENT'S OVERVIEW**

For the year ended December 31, 2012, net earnings attributable to Stewart of \$109.2 million, or \$4.61 per diluted share, represent an improvement of \$106.8 million over the same period in 2011. Our strong operating results in 2012 allowed us to release in the fourth quarter \$36.6 million (\$1.50 per diluted share) of a tax asset valuation allowance (originally established in 2008), representing that portion of the allowance that had not been previously utilized to offset taxable income. The remaining valuation allowance of \$12.1 million relates primarily to foreign tax credit carryforwards.

Total revenues in 2012 were \$1.9 billion, an increase of 16.9 percent from \$1.6 billion in 2011. Revenues from our title segment operations increased 14.6 percent, to \$1.7 billion in 2012. Revenues from services provided by our mortgage services segment increased 44.0 percent to \$178.0 million in 2012 from \$123.6 million in 2011.

Cash provided by operations improved substantially in 2012 to \$120.5 million compared to \$23.4 million in 2011.

Mortgage services pretax earnings increased 45.7 percent to \$48.6 million in 2012 compared to \$33.4 million in 2011. The offerings in our mortgage services segment continue to expand, with new projects within the broad category of servicing support helping drive the increase in revenues over the last two quarters. As the real estate market recovers, the distressed servicing projects naturally retrench, and new service offerings have been introduced which allow our customers to outsource various other aspects of their servicing operations to us. Our focus is on providing mortgage process outsourcing services which are high-quality, flexible, and responsive. We expect these service offerings to be more sustainable over market cycles.

2012 title losses as a percentage of title revenues declined to 8.1 percent from 9.4 percent in 2011. Title losses, including adjustments to certain large claims in both periods, decreased 1.5 percent on the 14.7 percent increase in title operating revenues when compared to 2011. Our overall loss experience continued to improve relative to prior year periods and was in line with our actuarial expectations, which allowed us to maintain the lower loss provisioning rate adopted effective with policies issued in the third quarter 2012. Cash claim payments decreased 7.7 percent compared to 2011. Losses incurred on known claims decreased 12.2 percent compared to 2011. The decline in cash claim payments and losses incurred on known claims continues a trend noted for several quarters.

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### **CRITICAL ACCOUNTING ESTIMATES**

Actual results can differ from our accounting estimates. While we do not anticipate significant changes in our estimates, there is a risk that such changes could have a material impact on our consolidated financial condition or results of operations for future periods.

#### **Title loss reserves**

Our most critical accounting estimate is providing for title loss reserves. Our liability for estimated title losses as of December 31, 2012 comprises both known claims (\$137.9 million) and our estimate of claims that may be reported in the future (\$382.5 million). The amount of the reserve represents the aggregate, non-discounted future payments (net of recoveries) that we expect to incur on policy and escrow losses and in costs to settle claims.

Provisions for title losses, as a percentage of title operating revenues, were 8.1%, 9.4% and 9.6% for the years ended December 31, 2012, 2011 and 2010, respectively. Actual loss payment experience, including the impact of large losses, is the primary reason for increases or decreases in our loss provision. A change of 100 basis points in this percentage, a reasonably likely scenario based on our historical loss experience, would have increased or decreased our provision for title losses and pretax operating results approximately \$17.3 million for the year ended December 31, 2012.

Our method for recording the reserves for title losses on both an interim and annual basis begins with the calculation of our current loss provision rate, which is applied to our current premium revenues resulting in a title loss expense for the period. This loss provision rate is set to provide for losses on current year policies and is determined using moving average ratios of recent actual policy loss payment experience (net of recoveries) to premium revenues.

At each quarter end, our recorded reserve for title losses begins with the prior period's reserve balance for claim losses, adds the current period provision to that balance and subtracts actual paid claims, resulting in an amount that our management compares to its actuarially-based calculation of the ending reserve balance necessary to provide for future title losses. The actuarially-based calculation is a paid loss development calculation where loss development factors are selected based on company data and input from our third-party actuaries. We also obtain input from third-party actuaries in the form of a reserve analysis utilizing generally accepted actuarial methods. While we are responsible for determining our loss reserves, we utilize this actuarial input to assess the overall reasonableness of our reserve estimation. If our recorded reserve amount is within a reasonable range (+/- 4.0%) of our actuarially-based reserve calculation and the actuary's point estimate, but not at the point estimate, our management assesses the major factors contributing to the different reserve estimates in order to determine the overall reasonableness of our recorded reserve, as well as the position of the recorded reserves relative to the point estimate and the estimated range of reserves. The major factors considered can change from period to period and include items such as current trends in the real estate industry (which management can assess although there is a time lag in the development of this data for use by the actuary), the size and types of claims reported and changes in our claims management process. If the recorded amount is not within a reasonable range of our third-party actuary's point estimate, we will adjust the recorded reserves in the current period and reassess the provision rate on a prospective basis. Once our reserve for title losses is recorded, it is reduced in future periods as a result of claims payments and may be increased or reduced by revisions to our estimate of the overall level of required reserves.

Large claims (those exceeding \$1.0 million on a single claim), including large title losses due to independent agency defalcations, are analyzed and reserved for separately due to the higher dollar amount of loss, lower volume of claims reported and sporadic reporting of such claims. Large title losses due to independent agency defalcations typically occur when the independent agency misappropriates funds from escrow accounts under its control. Such losses are usually discovered when the independent agency fails to pay off an outstanding mortgage loan at closing (or immediately thereafter) from the proceeds of the new loan. Once the previous lender determines that its loan has not been paid off timely, it will file a claim against the title insurer. It is at this point that the title insurance underwriter is alerted to the potential theft and begins its investigation. As is industry practice, these claims are considered a

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claim on the newly issued title insurance policy since such policy insures the holder (in this case, the new lender) that all previous liens on the property have been satisfied. Accordingly, these claim payments are charged to policy loss expense. These incurred losses are typically more severe in terms of dollar value compared with traditional title policy claims since the independent agency is often able, over time, to conceal misappropriation of escrow funds relating to more than one transaction through the constant volume of funds moving through its escrow accounts. As long as new funds continue to flow into escrow accounts, an independent agency can mask one or more defalcations. In declining real estate markets, lower transaction volumes result in a lower incoming volume of funds, making it more difficult to cover up the misappropriation with incoming funds. Thus, when the defalcation is discovered, it often relates to several transactions. In addition, the overall decline in an independent agency's revenues, profits and cash flows increases the agency's incentive to improperly utilize the escrow funds from real estate transactions.

Internal controls relating to independent agencies include, but are not limited to, pre-signing and periodic audits, site visits and reconciliations of policy inventories and premiums. The audits and site visits cover examination of the escrow account bank reconciliations and an examination of a sample of closed transactions. In some instances, the scope of our review is limited by attorney agencies that cite client confidentiality. Certain states have mandated annual reviews of all agencies by their underwriter. We also determine whether our independent agencies have appropriate internal controls as defined by the American Land Title Association and us. However, even with adequate internal controls in place, their effectiveness can be circumvented by collusion or improper override of the controls by management at the independent agencies. To aid in the selection of independent agencies to review, we have developed an agency risk model that aggregates data from different areas to identify possible problems. This is not a guarantee that all independent agencies with deficiencies will be identified. In addition, we are typically not the only underwriter for which an independent agency issues policies, and independent agencies may not always provide complete financial records for our review.

Due to the inherent uncertainty in predicting future title policy losses, significant judgment is required by both our management and our third party actuaries in estimating reserves. As a consequence, our ultimate liability may be materially greater or less than current reserves and/or our third party actuary's calculated estimate.

### Agency revenues

We recognize revenues on title insurance policies written by independent agencies (agencies) when the policies are reported to us. In addition, where reasonable estimates can be made, we accrue for revenues on policies issued but not reported until after period end. We believe that reasonable estimates can be made when recent and consistent policy issuance information is available. Our estimates are based on historical reporting patterns and other information about our agencies. We also consider current trends in our direct operations and in the title industry. In this accrual, we are not estimating future transactions; we are estimating revenues on policies that have already been issued by agencies but not yet reported to or received by us. We have consistently followed the same basic method of estimating unreported policy revenues for more than 10 years.

Our accruals for revenues on unreported policies from agencies were not material to our consolidated assets or stockholders' equity as of December 31, 2012 and 2011. The differences between the amounts our agencies have subsequently reported to us compared to our estimated accruals are substantially offset by any differences arising from prior years' accruals and have been immaterial to consolidated assets and stockholders' equity during each of the three prior years. We believe our process provides the most reliable estimate of the unreported revenues on policies and appropriately reflects the trends in agency policy activity.

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### **Goodwill and other long-lived assets**

Our evaluation of goodwill is normally completed annually in the third quarter using June 30 balances, but an evaluation may also be made whenever events may indicate impairment. This evaluation is based on a combination of a discounted cash flow analysis (DCF) and market approaches that incorporate market multiples of comparable companies and our own market capitalization. The DCF model utilizes historical and projected operating results and cash flows, initially driven by estimates of changes in future revenue levels, and risk-adjusted discount rates. Our projected operating results are primarily driven by anticipated mortgage originations, which we obtain from projections by industry experts. Fluctuations in revenues, followed by our ability to appropriately adjust our employee count and other operating expenses, or large and unanticipated adjustments to title loss reserves, are the primary reasons for increases or decreases in our projected operating results. Our market-based valuation methodologies utilize (i) market multiples of earnings and/or other operating metrics of comparable companies and (ii) our market capitalization and a control premium based on market data and factors specific to our ownership and corporate governance structure (such as our Class B Common Stock). To the extent that our future operating results are below our projections, or in the event of adverse market conditions, an interim review for impairment may be required, which may result in an impairment of goodwill.

We evaluate goodwill based on five reporting units (direct operations, agency operations, international operations, mortgage services and corporate). Goodwill is assigned to these reporting units at the time the goodwill is initially recorded. Once assigned to a reporting unit, the goodwill is pooled and no longer attributable to a specific acquisition. All activities within a reporting unit are available to support the carrying value of the goodwill.

We also evaluate the carrying values of title plants and other long-lived assets when events occur that may indicate impairment. The process of determining impairment for our goodwill and other long-lived assets relies on projections of future cash flows, operating results, discount rates and overall market conditions, including our market capitalization. Uncertainties exist in these projections and they are subject to changes relating to factors such as interest rates and overall real estate and financial market conditions, our market capitalization and overall stock market performance. Actual market conditions and operating results may vary materially from our projections.

Based on these evaluations, we estimate and expense to current operations any loss in value of these assets. As part of our process, we have an option to assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If we decide not to use a qualitative assessment or if we fail the qualitative assessment, then we obtain input from third-party appraisers regarding the fair value of our reporting units. While we are responsible for assessing whether an impairment of goodwill exists, we utilize the input from third-party appraisers to assess the overall reasonableness of our conclusions. We utilized a qualitative assessment for our annual goodwill impairment test and, based on our analysis, determined it was not more-likely-than-not that the fair value of our reporting units were less than their carrying amounts as of June 30, 2012. There were no impairment charges for goodwill or material impairment charges for other long-lived assets during the three years ended December 31, 2012.

**Operations.** Our business has three main operating segments: title insurance and related services, mortgage services and corporate.

Our primary business is title insurance and settlement-related services. We close transactions and issue title policies on homes, commercial and other real properties located in all 50 states, the District of Columbia and international markets through policy-issuing offices and agencies. We also provide loan origination and servicing support; loan review services; loss mitigation; REO asset management; home and personal insurance services; and technology to streamline the real estate process.

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**Factors affecting revenues.** The principal factors that contribute to changes in operating revenues for our title and mortgage services segments include:

mortgage interest rates;

availability of mortgage loans;

ability of potential purchasers to qualify for loans;

inventory of existing homes available for sale;

ratio of purchase transactions compared with refinance transactions;

ratio of closed orders to open orders;

home prices;

volume of distressed property transactions;

consumer confidence;

demand by buyers;

number of households;

premium rates;

market share;

opening of new offices and acquisitions;

number of commercial transactions, which typically yield higher premiums;

government or regulatory initiatives, including tax incentives; and

number of REO and foreclosed properties and related debt.

To the extent inflation causes increases in the prices of homes and other real estate, premium revenues are also increased. Conversely, falling home prices cause premium revenues to decline. Premiums are determined in part by the insured values of the transactions we handle. These factors may override the seasonal nature of the title insurance business. Historically, our first quarter is the least active and our third and fourth quarters are the most active in terms of title insurance revenues.

**Industry data.** Published mortgage interest rates and other selected residential data for the years ended December 31, 2012, 2011 and 2010 follow (amounts shown for 2012 are preliminary and subject to revision). The amounts below may not relate directly to or provide accurate data for forecasting our operating revenues or order counts.

Our statements on home sales, mortgage interest rates and loan activity are based on published industry data from sources including Fannie Mae, the National Association of Realtors®, the Mortgage Bankers Association and Freddie Mac.

	2012	2011	2010
Mortgage interest rates (30-year, fixed-rate) %			
Averages for the year	3.66	4.46	4.69
First quarter	3.92	4.85	5.00
Second quarter	3.80	4.66	4.91
Third quarter	3.55	4.31	4.45
Fourth quarter	3.36	4.01	4.41
Mortgage originations \$ billions	1,921	1,496	1,701
Refinancings % of originations	73.0	65.7	67.9
New home sales in millions	0.37	0.30	0.32
Existing home sales in millions	4.65	4.26	4.19
Existing home sales median sales price in \$ thousands	176.6	166.1	172.9

The real estate market experienced increasing home prices in 2012 and is expected to provide an increasing contribution to GDP in 2013 and in coming years. Recent data indicate that the housing recovery has transitioned to a faster upward track, boosted by an improving labor market and low mortgage rates. Overall, home sales, home prices, and home building activity as well as homebuilder confidence appear to be on the upswing, having risen to multi-year highs during 2012.



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**Trends and order counts.** For the three years ended December 31, 2012, mortgage interest rates (30-year, fixed-rate) have fluctuated from a monthly high of 5.1% in April 2010 to a monthly low of 3.4% in November 2012. In 2012, total mortgage originations and refinancing mortgage originations increased 28.4% and 43.0%, respectively. During 2012, sales of new homes and existing homes increased 19.9% and 9.2%, respectively. In 2011, sales of new homes decreased 5.9%, while sales of existing homes increased 1.7%.

As a result of the above trends, our direct order levels increased from 2011 to 2012 and decreased from 2010 to 2011, which is consistent with the U.S. real estate market during those same periods.

The number of direct title orders opened follows:

	2012	2011	2010
	(in thousands)		
First quarter	103	84	97
Second quarter	111	91	106
Third quarter	112	101	117
Fourth quarter	104	90	95
	430	366	415

The number of direct title orders closed follows:

	2012	2011	2010
	(in thousands)		
First quarter	71	62	61
Second quarter	79	67	77
Third quarter	81	69	75
Fourth quarter	85	73	80
	316	271	293

**RESULTS OF OPERATIONS**

A comparison of our results of operations for 2012 with 2011 and 2011 with 2010 follows. Factors contributing to fluctuations in results of operations are presented in the order of their monetary significance, and we have quantified, when necessary, significant changes. Results from our mortgage services and corporate segments are included in year-to-year discussions and, when relevant, are discussed separately.

**Title revenues.** Revenues from direct title operations increased \$91.0 million, or 14.5%, in 2012 and increased \$1.1 million, or 0.2%, in 2011. The largest revenue increases in 2012 were in Texas, Utah, Colorado and Washington, partially offset by decreases in Nevada and Georgia. The largest revenue increases in 2011 were in California and Florida, partially offset by decreases in Maryland and Arizona. Revenues from commercial and other large transactions increased \$8.5 million to \$111.5 million in 2012 and increased \$10.3 million to \$103.0 million in 2011.

Direct orders closed increased 16.7%, while the average revenue per file closed (including large commercial policies) decreased 2.3% in 2012 compared to 2011 due to an increase in residential refinancing closings in the same periods. Direct operating revenues, excluding large commercial policies, increased 15.3%, while the average revenue per closing decreased 1.2% in 2012 compared to 2011. On average, refinance premium rates are 60% of the title premium revenue of a similarly priced sale transaction. In 2011 direct orders closed decreased 7.7%, while the average revenue per file closed (including large commercial policies) increased 8.7%

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compared to 2010 due to a decrease in residential refinancing closings in the same periods. Direct operating revenues, excluding large commercial policies, decreased 1.5%, while the average revenue per closing decreased 6.7% in 2011 compared to 2010.

Revenues from independent agencies increased \$130.2 million, or 14.8%, in 2012 and decreased \$37.4 million, or 4.1%, in 2011. The largest increases in revenues from independent agencies in 2012 were in New York, Texas, California and Pennsylvania, partially offset by decreases in Illinois, Maryland, and Minnesota. The largest increases in revenues from independent agencies in 2011 were in New York, Illinois, Michigan, and Minnesota, partially offset by decreases in California, Florida, New Jersey, and Utah. Revenues from independent agencies net of amounts retained by those agencies increased 16.3% in 2012 and declined 4.9% in 2011.

**Title revenues by geographic location.** The approximate amounts and percentages of consolidated title operating revenues for the last three years were as follows:

	Amounts (\$ millions)			Percentages		
	2012	2011	2010	2012	2011	2010
Texas	299	247	244	17	16	16
California	204	181	203	12	12	13
New York	190	165	136	11	11	9
International	117	109	98	7	7	6
Florida	71	58	71	4	4	5
All others	845	745	788	49	50	51
	1,726	1,505	1,540	100	100	100

**Mortgage services revenues.** Mortgage services operating revenues increased \$50.8 million, or 45.3%, and \$20.3 million, or 22.2%, in 2012 and 2011, respectively. The increases in 2012 and 2011 were primarily due to a significant rise in demand for our servicing support services, including loan modification services. The service offerings in our mortgage services segment continue to expand, with new servicing support projects driving the increase in revenues during 2012. The acquisition of PMH Financial in the third quarter 2011 also contributed to the 2011 increase in mortgage services revenues. Demand for mortgage services offerings are influenced by the number and scale of government programs and lender projects which may result in significant fluctuations in mortgage services revenues. Demand from lenders is increasingly being driven by their desire to more broadly outsource aspects of their servicing support operations, a trend that we expect will continue in 2013. As the real estate market recovers and distressed servicing projects naturally retrench, new service offerings have been introduced which allow our customers to outsource various aspects of their servicing operations to us. Our focus is on providing mortgage process outsourcing services which are high-quality, flexible and responsive. We expect these service offerings to be more sustainable over market cycles.

**Investment income.** Investment income decreased \$1.7 million, or 10.9%, and \$2.9 million, or 15.7%, in 2012 and 2011, respectively. The decrease in 2012 was primarily due to decreases in average yield. Certain investment gains and losses, which are included in our results of operations in investment and other gains net, were realized as part of the ongoing management of our investment portfolio for the purpose of improving performance. The decrease in 2011 was primarily due to decreases in yield which were partially offset by a \$1.2 million royalty payment.

In 2012, investment and other gains net included realized gains of \$8.0 million from the sale of debt securities and other investments available-for-sale and sale of fixed assets, partially offset by realized losses of \$0.8 million for the impairment of cost-basis investments.

In 2011, investment and other gains net included realized gains of \$10.7 million from the sale of debt instruments and investments available-for-sale, which were offset by a \$4.3 million loss on a third-party loan guarantee obligation, and a \$3.5 million impairment of cost-basis investments.

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In 2010, investment and other gains net included realized gains of \$11.8 million from the sale of debt instruments and investments available-for-sale, \$6.3 million primarily from a transfer of the rights to internally developed software, \$1.2 million from the sale of interests in subsidiaries and \$3.0 million from the sale of real estate.

**Retention by agencies.** Amounts retained by title agencies are based on agreements between the agencies and our title underwriters. On average, amounts retained by independent agencies, as a percentage of revenues generated by them, were 82.3%, 82.5% and 82.4% in the years 2012, 2011 and 2010, respectively. The average retention percentage may vary from year-to-year due to the geographical mix of agency operations, the volume of title revenues and, in some states, laws or regulations. Due to the variety of such laws or regulations, as well as competitive factors, the average retention rate can differ significantly from state to state. Although general conditions in the real estate industry are improving nationwide, the recovery in specific markets has varied considerably. In addition, a high proportion of our independent agencies are in states with retention rates greater than 80% and the markets in those states have recovered relatively faster than the nation as a whole, which has resulted in our average retention percentage remaining in the 82% - 83% range. We expect our average retention rate to remain in this range over the near to medium term. However, we continue to adjust independent agency contracts in an economically sound manner, and we expect the mix of agency business to normalize as real estate markets continue to stabilize nationally resulting in lower average retention percentages in the aggregate. The slight increase in agent retention in 2011 was attributable to a shift in geographic mix of revenues from independent agents, as relatively more revenues were realized in states with lower remittance rates, thus lowering the overall average remittance rate. The fluctuations in 2010 were also affected by the uneven recovery of real estate markets across the nation; those states with higher agency retention percentages experienced a disproportionate increase in transaction activity in 2009.

We began the process of vetting our network of independent agencies several years ago with the emphasis on managing for quality and profitability. Since fourth quarter 2008, our average annual remittance rate per independent agency has increased more than 95 percent while we have reduced the number of independent agencies in our network by approximately 40 percent. Further, the policy loss ratio of our current independent agency network for the year ended December 31, 2012 is less than one-third of its level in the comparable 2008 period.

**Selected cost ratios (by segment).** The following table shows employee costs and other operating expenses as a percentage of related title insurance and mortgage services operating revenues.

	Employee costs (%)			Other operating (%)		
	2012	2011	2010	2012	2011	2010
Title	19.7	20.4	19.8	14.8	15.2	15.2
Mortgage services	60.9	63.0	66.0	8.7	5.3	10.3

These two categories of expenses are discussed below in terms of year-to-year monetary changes.

**Employee costs.** Our employee costs and certain other operating expenses are sensitive to inflation. Employee costs for the combined business segments increased \$72.6 million, or 15.5%, in 2012 and \$2.3 million, or 0.5%, in 2011. The number of persons we employed at December 31, 2012, 2011 and 2010 was approximately 6,300, 5,600 and 5,700, respectively.

In 2012, we increased our employee headcount company-wide by approximately 691, or 12.3% including acquisitions. The increase in headcount was largely driven by new mortgage services contracts (see discussion below). Employee costs were also influenced by increased contract labor for the aforementioned mortgage services contracts as well as higher incentive compensation expense driven by the improvement in pretax earnings before noncontrolling interest.

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In 2011, we reduced our employee headcount company-wide by approximately 240, or 4.2% excluding acquisitions. This decrease was partially offset by the acquisition of PMH Financial in 2011, which added approximately 100 employees. Employee costs were also influenced by increased incentive compensation expense driven by the improvement in pretax earnings before noncontrolling interest.

In 2010, we reduced our employee headcount company-wide by 130, or 2.2%, excluding the effects of divestitures. In 2010, employee costs were reduced primarily due to the sale and deconsolidation of several subsidiaries, partially offset by increases in state unemployment tax rates in certain states.

In our mortgage services segment, total employee costs as a percentage of operating revenue fell to 61.1% from 62.9% in 2011. Actual costs increased \$30.5 million, or 39.1%, in 2012, primarily due to increases in staffing requirements to support new contracts awarded in late 2011 and early 2012. In 2011, actual costs increased \$4.4 million, or 5.9%, primarily due to increases in staffing driven by increased demand for our loan modification services.

**Other operating expenses.** Other operating expenses include costs that are fixed in nature, costs that follow, to varying degrees, changes in transaction volumes and revenues and costs that fluctuate independently of revenues. Costs that are fixed in nature include attorney fees, equipment rental, insurance, professional fees, rent and other occupancy expenses, repairs and maintenance, technology costs, telephone and title plant rent. Costs that follow, to varying degrees, changes in transaction volumes and revenues include fee attorney splits, bad debt expenses, certain mortgage services expenses, copy supplies, delivery fees, outside search fees, postage, premium taxes and title plant expenses. Costs that fluctuate independently of revenues include auto expenses, general supplies, litigation defense and settlement costs, promotion costs and travel.

In 2012, other operating expenses for the combined business segments increased \$30.3 million, or 11.8%. Costs fixed in nature increased \$3.6 million, or 3.1%, in 2012, primarily due to increases in audit, accounting and technology costs, partially offset by decreases in rent and other occupancy expenses. Costs that follow, to varying degrees, changes in transaction volumes and revenues increased \$13.3 million, or 13.9%, in 2012 due to increases in outside search fees, bad debt expense and premium taxes. These increases were partially offset by decreases in certain mortgage service expenses. Costs that fluctuate independently of revenues increased \$13.4 million, or 30.3%, in 2012 due primarily to litigation-related expenses.

In 2011, other operating expenses for the combined business segments decreased \$17.1 million, or 6.2%. Costs fixed in nature decreased \$3.6 million, or 3.0%, primarily due to decreases in rent and other occupancy expenses related to office closures and a decrease in telephone expenses. These reductions were offset primarily by an increase in professional fees primarily due to the outsourcing of our internal audit function. Costs that follow, to varying degrees, changes in transaction volumes and revenues decreased \$6.6 million, or 6.4%, in 2011 due to decreases in bad debt expense, fee attorney splits and title plant expenses. These decreases were offset by increases in premium taxes and postage. Costs that fluctuate independently of revenues decreased \$6.9 million, or 13.6%, in 2011 due to litigation and other expense reductions and were partially offset by an increase in travel costs.

**Title losses.** Provisions for title losses, as a percentage of title operating revenues, were 8.1%, 9.4% and 9.6% in 2012, 2011 and 2010, respectively.

The year ended December 31, 2012 included charges of \$18.2 million (1.1% of title operating revenues) resulting from large title claims relating to policies issued in prior years. As anticipated, our overall loss experience continued to improve relative to prior year periods and was in line with our actuarial expectations, which allowed us to lower the overall loss provision rate effective with policies issued in the third quarter. Losses incurred on known claims for the year 2012 decreased 12.2% compared to the year 2011.

The year ended December 31, 2011 included charges of \$24.6 million (1.6% of title operating revenues) resulting from large title claims relating to policies issued in prior years. These charges were partially offset by insurance recoveries of \$2.4 million (0.2% of title operating revenues) on previously recognized title losses. Losses incurred on known claims for the year 2011 decreased 11.3%

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compared to the year 2010. During the fourth quarter of 2011, we resolved a significant number of large claims from prior policy years. Although some large claims remain outstanding, significant progress was made in resolving existing large claim inventory which will reduce future risk for the company.

The year ended December 31, 2010 included a reserve strengthening adjustment of \$4.8 million (0.03% of title operating revenues) relating to policy years 2007 and 2008 due to higher than expected loss payments and incurred loss experience for these policy years. Including this charge, the total strengthening charges recorded for these policy years are \$77.0 million, substantially all of which was recorded in 2008 and 2009. Current losses that are higher than previously anticipated for any given policy year are an indication that total losses for such policy year may be higher than originally calculated. Changes in the total estimated future loss for prior policy years are recorded in the period in which the estimate changes, and thus negatively impact the provision for title loss ratios.

Provisions for title losses in 2010 also include charges of \$13.3 million (0.09% of title operating revenues) resulting from changes in the estimated legal costs for several existing large title claims. These charges were partially offset by insurance recoveries of \$2.8 million (0.01% of title operating revenues) on previously recognized title losses.

Excluding the impact of the reserve strengthening charges, large losses, and defalcations (net of recoveries), title losses as a percent of title operating revenues were 7.1%, 7.9% and 8.6% in 2012, 2011 and 2010, respectively.

**Income taxes.** Our effective tax rates were (37.3)%, 79.9% and (179.2)% for 2012, 2011 and 2010, respectively, based on earnings before taxes and after deducting noncontrolling interests, which were earnings (loss) of \$79.5 million, \$11.7 million and (\$4.5) million in 2012, 2011 and 2010, respectively. Our effective income tax rate in 2012 was driven principally by the release of a valuation allowance of \$36.6 million that had been established against U.S. deferred tax assets. As of December 31, 2012, our valuation allowance against deferred tax assets was \$12.1 million, relating primarily to foreign tax credit carryforwards.

Our effective income tax rate in 2011 was driven by foreign and state taxes and income taxes associated with subsidiaries not included in our consolidated federal tax return, net of tax benefits from certain tax claims, and by a \$7.2 million decrease in the valuation allowance against our deferred tax assets.

**Contractual obligations.** Our material contractual obligations at December 31, 2012 were:

	Payments due by period (\$ millions)				Total
	Less than 1 year	1-3 years	3-5 years	More than 5 years	
Notes payable	2.0	3.9	0.6		6.5
Convertible senior notes		65.0			65.0
Operating leases	35.2	52.1	23.0	5.1	115.4
Estimated title losses	145.7	187.3	75.5	111.9	520.4
	182.9	308.3	99.1	117.0	707.3

Material contractual obligations consist primarily of notes payable, convertible senior notes, operating leases and estimated title losses. The timing above for payments of notes payable is based upon contractually stated payment terms of each debt agreement. The convertible senior notes will mature in 2014 unless converted into shares of common stock earlier.

Subsequent to year-end, we exchanged an aggregate of \$20.7 million of the convertible senior notes for an aggregate of 1,691,074 shares of common stock plus cash for accrued and unpaid interest. Following these transactions, an aggregate of \$44.3 million of convertible senior notes remain outstanding.

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Operating leases are primarily for office space and expire over the next nine years. The timing shown above for the payments of estimated title losses is not set by contract. Rather, it is projected based on historical payment patterns. The actual timing of estimated title loss payments may vary materially from the above projection since claims, by their nature, are complex and paid over long periods of time. Title losses paid were \$124.0 million, \$134.3 million and \$158.3 million in 2012, 2011 and 2010, respectively.

**LIQUIDITY AND CAPITAL RESOURCES**

Our liquidity and capital resources represent our ability to generate cash flow to meet our obligations to our shareholders, customers (payments to satisfy claims on title policies), vendors, employees, lenders and others. As of December 31, 2012, our cash and investments, including amounts reserved pursuant to statutory requirements, aggregated \$748.8 million. Cash and investments restricted due to statutory requirements aggregated \$456.6 million at December 31, 2012.

A substantial majority of our consolidated cash and investments as of December 31, 2012 was held by Stewart Title Guaranty Company (Guaranty) and its subsidiaries. The use and investment of these funds, dividends to the holding company, and cash transfers between Guaranty and its subsidiaries and the holding company are subject to certain legal and regulatory restrictions. In general, Guaranty may use its cash and investments in excess of its legally-mandated statutory premium reserve (established in accordance with requirements under Texas law) to fund its insurance operations, including claims payments. Guaranty may also, subject to certain limitations and upon regulatory approval, pay dividends to the holding company and/or provide funds to its subsidiaries (whose operations consist principally of field title offices) for their operating and debt service needs.

Guaranty cannot pay a dividend to its parent in excess of certain limits without the approval of the Texas Insurance Commissioner. As of December 31, 2012, the maximum dividend that could be paid in 2013 after such approval in 2013 is \$85.8 million. Guaranty did not pay a dividend in 2012 or 2011. However, the maximum dividend permitted by law is not necessarily indicative of Guaranty's actual ability to pay dividends, which may be constrained by business and regulatory considerations, such as the impact of dividends on surplus, which could affect its ratings or competitive position, the amount of insurance it can write and its ability to pay future dividends. Further, depending on business and regulatory conditions, we may in the future need to retain cash in Guaranty or even raise cash in the capital markets to contribute to it in order to maintain its ratings or statutory capital position. Such a requirement could be the result of investment losses, reserve charges, adverse operating conditions in the current economic environment or changes in interpretation of statutory accounting requirements by regulators.

Cash held at the parent company totaled \$10.7 million at December 31, 2012. As noted above, as a holding company, the parent is funded principally by cash from its subsidiaries in the form of dividends, for operating and other administrative expense reimbursements, and pursuant to intercompany tax sharing agreements. The expense reimbursements are paid in accordance with the management agreements among us and our subsidiaries. As the parent company conducts no operations apart from its wholly-owned subsidiaries, the discussion below focuses on consolidated cash flows.

A summary of our net consolidated cash flows for the years ended December 31 follows:

	2012	2011	2010
	(\$ millions)		
Net cash provided by operating activities	120.5	23.4	41.2
Net cash (used) provided by investing activities	(36.5)	(29.2)	235.2
Net cash used by financing activities	(18.1)	(7.0)	(238.8)

**Operating activities**

Our principal sources of cash from operations are premiums on title policies and revenue from title service-related transactions, and mortgage servicing support services. Our independent agencies remit cash to us net of their contractual retention. Our principal cash expenditures for operations are employee costs, operating costs and title claims payments.

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Cash provided by operations in 2012 was \$120.5 million, an improvement of \$97.1 million from \$23.4 million provided by operations in 2011. This improvement is primarily related to the \$110.3 million increase in net earnings when comparing the same periods and a \$12.9 million improvement in claims paid compared to loss provisions for the same periods. This improvement is partially offset by a \$9.4 million increase in receivables relating primarily to the increase in revenues in our mortgage servicing support businesses. We expect to collect these receivables during the first quarter 2013.

Our business is labor intensive, although we continue to make progress in automating our services, which allows us to more easily adjust staffing levels as order volumes fluctuate. There are typically delays between changes in market conditions and changes in staffing levels; therefore, employee costs do not change at the same rate as revenues change.

Cash payments on title claims in 2012, 2011 and 2010 were \$124.0 million, \$134.3 million and \$158.3 million, respectively. Claim payments made, net of insurance recoveries, during 2012, 2011, and 2010 include \$28.8 million, \$34.9 million and \$32.8 million, respectively, on large title claims. As these losses are paid and newly reported prior policy year claims begin to decline, we expect the overall amount of cash paid on title claims to continue to decline.

The insurance regulators of the states in which our underwriters are domiciled require our statutory premium reserves to be fully funded, segregated and invested in high-quality securities and short-term investments. As of December 31, 2012, cash and investments funding the statutory premium reserve aggregated \$456.6 million and our statutory estimate of claims that may be reported in the future totaled \$382.4 million. In addition to this restricted cash and investments, we had unrestricted cash and investments (excluding equity method investments) of \$147.1 million, which are available for underwriter operations, including claims payments.

## Investing activities

Cash from investing activities was generated principally by proceeds from investments matured and sold in the amounts of \$181.9 million, \$339.7 million and \$328.5 million in 2012, 2011 and 2010, respectively. We used cash for the purchases of investments in the amounts of \$207.7 million, \$336.1 million and \$303.5 million in 2012, 2011 and 2010, respectively. The cash from sales and maturities not reinvested in prior years was used principally to fund operations.

Capital expenditures were \$16.8 million, \$17.7 million, and \$16.3 million in 2012, 2011, and 2010, respectively. We maintain investment in capital expenditures at a level that enables us to implement technologies for increasing our operational and back-office efficiencies. Notwithstanding this, we also continue to aggressively manage cash flow and, therefore, overall capital spending will continue to be at reduced levels relative to our historical norms. During the year ended 2012, we sold assets and subsidiaries resulting in cash receipts of \$5.1 million.

During the years ended 2012 and 2011, acquisitions resulted in additions to goodwill of \$4.2 million and \$7.6 million, respectively. We made no acquisitions in 2010.

## Financing activities and capital resources

Total debt and stockholders' equity were \$71.2 million and \$580.4 million, respectively, as of December 31, 2012. In 2012 and 2011, we repaid \$5.7 million and \$6.0 million, respectively, of debt in accordance with the underlying terms of the debt instruments. Included in total debt are \$64.7 million of 6% Convertible Senior Notes due October 2014 (Notes), if not converted into shares of common stock. We also have available a \$10.0 million bank line of credit commitment, which expires in June 2013, under which no borrowings were outstanding at December 31, 2012. Subsequent to December 31, 2012, we exchanged an aggregate of \$20.7 million of Notes for an aggregate of 1,691,074 shares of common stock plus cash for accrued and unpaid interest. Following these transactions, an aggregate of \$44.3 million of convertible debt remains outstanding.

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We paid \$1.8 million and \$0.9 million, respectively, in cash dividends to our shareholders representing \$0.10 in 2012 and \$0.05 in 2011 and 2010 per common share outstanding. Our dividend has remained relatively low due to our operating performance and our desire to conserve cash. In addition, the maximum dividend allowed under the terms of the Notes is \$0.10 per share for as long as the Notes remain outstanding. The declaration of any future dividend is at the discretion of our Board of Directors.

As previously disclosed and in accordance with a settlement agreement in the amount of \$7.6 million, we issued 635,863 shares of Common Stock in January 2011 to settle our wage and hour class action lawsuits filed in California state and federal courts against our subsidiary Stewart Title of California, Inc. We did not receive any proceeds from the issuance of these shares. Additionally in the second quarter of 2011, we satisfied a residual note balance of \$1.3 million related to the acquisition of remaining interest in a subsidiary through the issuance of stock held in treasury.

### Effect of changes in foreign currency rates

The effect of changes in foreign currency rates on the consolidated statements of cash flows was a net increase in cash and cash equivalents of \$1.8 million in 2012, a net decrease of \$0.8 million in 2011 and a net increase of \$0.8 million in 2010. Our principal foreign operating unit is in Canada, and, on average, the value of the U.S. dollar relative to the Canadian dollar increased during 2012.

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We believe we have sufficient liquidity and capital resources to meet the cash needs of our ongoing operations. However, if we determine that supplemental debt, including additional convertible debentures, or equity funding is warranted to provide additional liquidity for unforeseen circumstances or strategic acquisitions, we may pursue those sources of cash. Other than scheduled maturities of debt, operating lease payments, purchase agreements and anticipated claims payments, we have no material commitments. We expect that cash flows from operations and cash available from our underwriters, subject to regulatory restrictions, will be sufficient to fund our operations, including claims payments. However, to the extent that these funds are not sufficient, we may be required to borrow funds on terms less favorable than we currently have, or seek funding from the equity market, which may not be successful or may be on terms that are dilutive to existing shareholders.

**Other-than-temporary impairments of investments.** We recorded other-than-temporary impairments of \$0.8 million and \$3.5 million in 2012 and 2011, respectively, relating to impairment of cost-basis investments.

**Other comprehensive earnings (loss).** Unrealized gains and losses on investments and changes in foreign currency exchange rates are reported net of deferred taxes in accumulated other comprehensive earnings, a component of stockholders' equity, until realized. In 2012, net unrealized investment gains of \$7.0 million, which increased our other comprehensive earnings, were primarily related to temporary increases in market values of corporate bond investments. Changes in foreign currency exchange rates, primarily related to our Canadian operations, increased other comprehensive earnings by \$2.9 million, net of taxes, in 2012.

In 2011, net unrealized investment gains of \$5.7 million were primarily related to temporary increases in market values of corporate, municipal, and government agency debt securities. These gains were partially offset by changes in deferred taxes resulting in a total increase to other comprehensive earnings related to the net change in unrealized investments of \$4.9 million. Foreign currency exchange rates, primarily related to our Canadian operations, decreased comprehensive income by \$1.8 million, net of taxes, in 2011.



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In 2010, net unrealized investment gains of \$0.3 million, which increased our comprehensive income, were primarily related to temporary increases in market values of government bond investments, partially offset by decreases in municipal bond investments. Foreign currency exchange rates, primarily related to our Canadian operations, increased comprehensive income by \$3.5 million, net of taxes, in 2010. Other comprehensive earnings included a \$1.1 million provision for Canadian income taxes related to unrealized gains in 2010.

**Off-balance sheet arrangements.** We do not have any material source of liquidity or financing that involves off-balance sheet arrangements, other than our contractual obligations under operating leases. We also routinely hold funds in segregated escrow accounts pending the closing of real estate transactions and have qualified intermediaries in tax-deferred property exchanges for customers pursuant to Section 1031 of the Internal Revenue Code. The Company holds the proceeds from these transactions until a qualifying exchange can occur. In accordance with industry practice, these segregated accounts are not included on the balance sheet. See Note 18 to our accompanying consolidated financial statements.

**Forward-looking statements.** Certain statements in this report are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements relate to future, not past, events and often address our expected future business and financial performance. These statements often contain words such as expect, anticipate, intend, plan, believe, seek, will, foresee, similar words. Forward-looking statements by their nature are subject to various risks and uncertainties that could cause our actual results to be materially different than those expressed in the forward-looking statements. These risks and uncertainties include, among other things, the tenuous economic conditions; adverse changes in the level of real estate activity; changes in mortgage interest rates, existing and new home sales, and availability of mortgage financing; our ability to respond to and implement technology changes, including the completion of the implementation of our enterprise systems; the impact of unanticipated title losses on the need to strengthen our policy loss reserves; any effect of title losses on our cash flows and financial condition; the impact of vetting our agency operations for quality and profitability; changes to the participants in the secondary mortgage market and the rate of refinancings that affect the demand for title insurance products; regulatory non-compliance, fraud or defalcations by our title insurance agents or employees; our ability to timely and cost-effectively respond to significant industry changes and introduce new products and services; the outcome of pending litigation; the impact of changes in governmental and insurance regulations, including any future reductions in the pricing of title insurance products and services; our dependence on our operating subsidiaries as a source of cash flow; the continued realization of expense savings from our continual focus on aligning our operations to quickly adapt our costs to transaction volumes and market conditions; our ability to access the equity and debt financing markets when and if needed; our ability to grow our international operations; and our ability to respond to the actions of our competitors. We expressly disclaim any obligation to update any forward-looking statements contained in this report to reflect events or circumstances that may arise after the date hereof, except as may be required by applicable law.

**Table of Contents****Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

The discussion below about our risk management strategies includes forward-looking statements that are subject to risks and uncertainties. Management's projections of hypothetical net losses in the fair values of our market rate-sensitive financial instruments, should certain potential changes in market rates occur, are presented below. While we believe that the potential market rate changes are possible, actual rate changes could differ from our projections.

Our only material market risk in investments in financial instruments is our debt securities portfolio. We invest primarily in municipal, corporate, utilities, foreign and U.S. Government debt securities. We do not invest in financial instruments of a derivative or hedging nature.

We have established policies and procedures to minimize our exposure to changes in the fair values of our investments. These policies include retaining an investment advisory firm, an emphasis upon credit quality, management of portfolio duration, maintaining or increasing investment income through high coupon rates and actively managing our profile and security mix depending upon market conditions. We have classified all of our investments as available-for-sale.

Investments in debt securities at December 31, 2012 mature, according to their contractual terms, as follows (actual maturities may differ because of call or prepayment rights):

	Amortized costs	Fair values
	(\$ thousands)	
In one year or less	17,673	17,905
After one year through two years	69,820	69,954
After two years through three years	35,714	36,784
After three years through four years	30,676	32,697
After four years through five years	75,078	77,752
After five years	241,252	257,094
	470,213	492,186

We believe our investment portfolio is diversified and do not expect any material loss to result from the failure to perform by issuers of the debt securities we hold. Our investments are not collateralized. Foreign debt securities primarily include Canadian government and corporate bonds which aggregated \$143.3 million as of December 31, 2012 and Canadian government bonds which aggregated \$136.6 million as of December 31, 2011. Also included in foreign debt securities are United Kingdom treasury bonds as of December 31, 2012 and 2011.

Based on our debt securities portfolio and interest rates at December 31, 2012, a 100 basis-point increase (decrease) in interest rates would result in a decrease (increase) of approximately \$22.6 million, or 4.6%, in the fair value of our portfolio. Changes in interest rates may affect the fair value of the debt securities portfolio and may result in unrealized gains or losses. Gains or losses would only be realized upon the sale of the investments. Any other-than-temporary declines in fair values of securities are charged to earnings.

**Item 8. Financial Statements and Supplementary Data**

The information required to be provided in this item is included in our audited Consolidated Financial Statements, including the Notes thereto, attached hereto as pages F-1 to F-29, and such information is incorporated in this report by reference.

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**Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure**

None.

**Item 9A. Controls and Procedures**

Our principal executive officer and principal financial officer are responsible for establishing and maintaining disclosure controls and procedures. They evaluated the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of December 31, 2012, and have concluded that, as of such date, our disclosure controls and procedures are adequate and effective to ensure that information we are required to disclose in the reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (ii) accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)). Our internal control over financial reporting is a process, under the supervision of our principal executive officer and principal financial officer, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our management, with the participation of our principal executive officer and principal financial officer, assessed the effectiveness of our internal control over financial reporting as of December 31, 2012. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework. Based on this assessment, management believes that, as of December 31, 2012, our internal control over financial reporting is effective based on those criteria.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Due to such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

See page F-2 for the Report of Independent Registered Public Accounting Firm on our effectiveness of internal control over financial reporting.

There has been no change in our internal control over financial reporting during the quarter ended December 31, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. As a result, no corrective actions were required or undertaken.

**Item 9B. Other Information**

None.

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**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance**

Information regarding our directors and executive officers will be included in our proxy statement for our 2012 Annual Meeting of Stockholders (Proxy Statement), to be filed within 120 days after December 31, 2012, and is incorporated in this report by reference.

Our Board of Directors and Executive Officers as of March 6, 2013 are:

**Board of Directors:**

Catherine A. Allen	Chairman and CEO, The Santa Fe Group
Thomas G. Apel	CEO of VLN, Inc.
Robert L. Clarke	Senior Partner, Bracewell & Giuliani, L.L.P.
Paul W. Hobby	Chairman and Founding Partner, Genesis Park, L.P.
Dr. E. Douglas Hodo	Chairman of the Board of the Company and President Emeritus, Houston Baptist University
Laurie C. Moore	Chief Executive Officer, The Institute for Luxury Home Marketing
Malcolm S. Morris	Vice Chairman of the Board
Stewart Morris, Jr.	Vice Chairman of the Board
Dr. W. Arthur Porter	Professor Emeritus, University of Oklahoma

**Executive Officers:**

Matthew W. Morris	Chief Executive Officer
J. Allen Berryman	Chief Financial Officer, Secretary, Treasurer and Principal Financial Officer
John L. Killea	Chief Legal Officer
John A. Arcidiacono	Chief Marketing Officer
Murshid S. Khan	Chief Information Officer
Susan C. McLauchlan	Chief Human Resources Officer
Steven M. Lessack	Group President, International Operations
Glenn Clements	Group President, Direct Operations
George Houghton	Group President, Agency Operations
Jason Nadeau	Group President, Mortgage and Title Services

The Board of Directors has adopted the *Stewart Code of Business Conduct and Ethics* and *Guidelines on Corporate Governance*, as well as the *Code of Ethics for Chief Executive Officers, Principal Financial Officer and Principal Accounting Officer*. Each of these documents can be found at our website, [www.stewart.com](http://www.stewart.com).

**Item 11. Executive Compensation**

Information regarding compensation for our executive officers will be included in the Proxy Statement and is incorporated in this report by reference. The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis with management and based on that review and discussion, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the Proxy Statement.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

Information regarding security ownership of certain beneficial owners and management and related stockholder matters will be included in the Proxy Statement and is incorporated in this report by reference.

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**Item 13. Certain Relationships and Related Transactions, and Director Independence**

Information regarding certain relationships and related transactions and director independence will be included in the Proxy Statement and is incorporated in this report by reference.

**Item 14. Principal Accounting Fees and Services**

Information regarding fees paid to and services provided by our independent registered public accounting firm will be included in the Proxy Statement and is incorporated in this report by reference.

**PART IV**

**Item 15. Exhibits, Financial Statement Schedules**

(a) Financial Statements and Financial Statement Schedules

The financial statements and financial statement schedules filed as part of this report are listed in the Index to Consolidated Financial Statements and Financial Statement Schedules on Page F-1 of this document. All other schedules are omitted, as the required information is inapplicable or the information is presented in the consolidated financial statements or related notes.

(b) Exhibits

Those exhibits required to be filed by Item 601 of Regulation S-K are listed in the Index to Exhibits immediately preceding the exhibits filed herewith and such listing is incorporated herein by reference.

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, we have duly caused this report to be signed on our behalf by the undersigned, thereunto duly authorized.

**STEWART INFORMATION SERVICES CORPORATION**

(Registrant)

By: /s/ Matthew W. Morris  
Matthew W. Morris, Chief Executive Officer

By: /s/ J. Allen Berryman  
J. Allen Berryman, Chief Financial Officer,  
Secretary, Treasurer and Principal Financial  
Officer

By: /s/ Brian K. Glaze  
Brian K. Glaze, Controller and

Principal Accounting Officer

Date: March 6, 2013

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on our behalf on March 6, 2013 by the following Directors:

/s/ Catherine A. Allen  
(Catherine A. Allen)

/s/ Paul W. Hobby  
(Paul W. Hobby)

/s/ Malcolm S. Morris  
(Malcolm S. Morris)

/s/ Thomas G. Apel  
(Thomas G. Apel)

/s/ E. Douglas Hodo  
(E. Douglas Hodo)

/s/ Stewart Morris, Jr.  
(Stewart Morris, Jr.)

/s/ Robert L. Clarke  
(Robert L. Clarke)

/s/ Laurie C. Moore  
(Laurie C. Moore)

/s/ W. Arthur Porter  
(W. Arthur Porter)

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**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS  
AND FINANCIAL STATEMENT SCHEDULES**

Stewart Information Services Corporation and Subsidiaries	Consolidated Financial Statements:	
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<u>Consolidated Statements of Operations and Comprehensive Earnings (Loss) for the Years Ended December 31, 2012, 2011 and 2010</u>		F-4
<u>Consolidated Balance Sheets as of December 31, 2012 and 2011</u>		F-5
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Financial Statement Schedules:		
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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders

Stewart Information Services Corporation:

We have audited Stewart Information Services Corporation's internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Stewart Information Services Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A. Controls and Procedures. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Stewart Information Services Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Stewart Information Services Corporation and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of operations and comprehensive earnings (loss), and cash flows for each of the years in the three-year period ended December 31, 2012, and the financial statement schedules as listed in the accompanying index, and our report dated March 6, 2013 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Houston, Texas

March 6, 2013



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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders

Stewart Information Services Corporation:

We have audited the accompanying consolidated balance sheets of Stewart Information Services Corporation and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of operations and comprehensive earnings (loss), and cash flows for each of the years in the three-year period ended December 31, 2012. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedules as listed in the accompanying index. These consolidated financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Stewart Information Services Corporation and subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Stewart Information Services Corporation's internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 6, 2013 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Houston, Texas

March 6, 2013

**Table of Contents****CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE EARNINGS (LOSS)**

	For the Years Ended December 31,		
	2012	2011	2010
	(\$000 omitted, except per share)		
<b>Revenues</b>			
Title insurance:			
Direct operations	718,789	627,810	625,891
Agency operations	1,007,380	877,225	914,581
Mortgage services	162,856	112,064	91,739
Investment income	13,809	15,505	18,397
Investment and other gains net	7,578	2,302	21,782
	1,910,412	1,634,906	1,672,390
<b>Expenses</b>			
Amounts retained by agencies	829,070	723,943	753,438
Employee costs	542,461	469,839	467,491
Other operating expenses	286,496	256,194	273,253
Title losses and related claims	140,029	142,101	148,438
Depreciation and amortization	17,783	19,542	21,422
Interest	5,235	5,268	5,423
	1,821,074	1,616,887	1,669,465
Earnings before taxes and noncontrolling interests	89,338	18,019	2,925
Income tax (benefit) expense	(29,639)	9,341	8,075
Net earnings (loss)	118,977	8,678	(5,150)
Less net earnings attributable to noncontrolling interests	9,795	6,330	7,432
<b>Net earnings (loss) attributable to Stewart</b>	109,182	2,348	(12,582)
Net earnings (loss)	118,977	8,678	(5,150)
<b>Other comprehensive earnings:</b>			
Foreign currency translation	3,880	(2,241)	5,110
Change in unrealized gains and losses on investments	14,213	9,202	2,440
Reclassification of adjustment for gains in net earnings (loss)	(3,470)	(3,465)	(1,970)
Other comprehensive earnings, before taxes	14,623	3,496	5,580
Income tax expense related to items of other comprehensive earnings	4,721	425	2,930
Other comprehensive earnings, net of taxes	9,902	3,071	2,650
Comprehensive earnings (loss)	128,879	11,749	(2,500)
Less comprehensive earnings attributable to noncontrolling interests	9,795	6,330	7,432
Comprehensive earnings (loss) attributable to Stewart	119,084	5,419	(9,932)
Basic average shares outstanding (000)	19,294	19,131	18,313
Basic earnings (loss) per share attributable to Stewart	5.66	0.12	(0.69)
Dilutive average shares outstanding (000)	24,384	19,131	18,313
Diluted earnings (loss) per share attributable to Stewart	4.61	0.12	(0.69)

See notes to consolidated financial statements.



**Table of Contents****CONSOLIDATED BALANCE SHEETS**

	As of December 31,	
	2012	2011
	(\$000 omitted)	
<b>Assets</b>		
Cash and cash equivalents	196,471	117,196
Cash and cash equivalents statutory reserve funds	12,067	23,647
	208,538	140,843
Short-term investments	37,025	33,137
Investments in debt and equity securities available-for-sale, at fair value:		
Statutory reserve funds	444,579	397,074
Other	58,680	63,911
	503,259	460,985
Receivables:		
Notes	8,483	10,394
Premiums from agencies	45,458	47,351
Income taxes	3,259	7,412
Other	56,311	39,660
Allowance for uncollectible amounts	(12,823)	(16,056)
	100,688	88,761
Property and equipment, at cost:		
Land	5,848	6,429
Buildings	26,887	23,823
Furniture and equipment	241,694	234,262
Accumulated depreciation	(219,715)	(208,077)
	54,714	56,437
Title plants, at cost	77,360	77,406
Real estate, at lower of cost or net realizable value	3,941	5,236
Investments in investees, on an equity method basis	13,891	18,055
Goodwill	220,955	214,492
Intangible assets, net of amortization	7,015	8,693
Deferred tax asset	7,562	
Other assets	56,229	52,096
	1,291,177	1,156,141
<b>Liabilities</b>		
Notes payable	6,481	11,722
Convertible senior notes	64,687	64,513
Accounts payable and accrued liabilities	116,617	86,389
Estimated title losses	520,375	502,611
Deferred income taxes	2,645	27,449
	710,805	692,684
Contingent liabilities and commitments		
<b>Stockholders equity</b>		
Common Stock \$1 par, authorized 50,000,000; issued 18,705,914 and 18,605,993; outstanding 18,353,753 and 18,253,832	18,706	18,606
Class B Common Stock \$1 par, authorized 1,500,000; issued and outstanding 1,050,012	1,050	1,050

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Additional paid-in capital	133,685	132,446
Retained earnings	391,447	284,097
Accumulated other comprehensive earnings:		
Foreign currency translation adjustments	12,169	9,250
Unrealized investment gains on investments	14,415	7,431
Treasury stock 352,161 and 352,161 common shares, at cost	(2,666)	(2,666)
Total stockholders' equity attributable to Stewart	568,806	450,214
Noncontrolling interests	11,566	13,243
Total stockholders' equity	580,372	463,457
	1,291,177	1,156,141

See notes to consolidated financial statements.

**Table of Contents****CONSOLIDATED STATEMENTS OF CASH FLOWS**

	For the Years Ended December 31,		
	2012	2011	2010
	(\$000 omitted)		
Reconciliation of net earnings (loss) to cash provided by operating activities:			
Net earnings (loss)	118,977	8,678	(5,150)
Add (deduct):			
Depreciation and amortization	17,783	19,542	21,422
Provision for bad debt	3,201	1,318	4,186
Investment and other gains net	(7,578)	(2,302)	(21,782)
Provisions for title losses in excess of (less than) payments	15,248	2,383	(14,694)
Insurance recoveries of title losses	706	5,082	8,260
(Increase) decrease in receivables net	(16,133)	(6,748)	46,642
(Increase) decrease in other assets net	(2,779)	(189)	308
Increase (decrease) in payables and accrued liabilities net	29,278	(5,602)	(11,871)
(Decrease) increase in net deferred income taxes	(39,780)	(1,212)	10,544
Net earnings from equity investees	(4,253)	(1,710)	(2,427)
Dividends received from equity investees	3,426	2,524	2,996
Other net	2,426	1,645	2,760
<b>Cash provided by operating activities</b>	<b>120,522</b>	<b>23,409</b>	<b>41,194</b>
Investing activities:			
Proceeds from investments available-for-sale matured and sold	181,938	339,697	328,460
Purchases of investments available-for-sale	(207,690)	(336,118)	(303,517)
Proceeds from redemptions of investments pledged			217,225
Purchases of property and equipment, title plants and real estate net	(16,752)	(17,704)	(16,339)
Proceeds from the sale of land, buildings, and furniture and equipment	4,713		6,425
Increases in notes receivable	(463)	(291)	(1,109)
Collections on notes receivable	959	721	1,001
Change in cash and cash equivalents due to sale and deconsolidation of subsidiaries (see below)	1,566		(1,873)
Cash paid for acquisition of subsidiary	(1,183)	(8,262)	
Cash paid for loan guarantee obligation		(4,318)	
Cash received (paid) for other assets, cost-basis investments, equity investees and other net	384	(2,944)	4,887
<b>Cash (used) provided by investing activities</b>	<b>(36,528)</b>	<b>(29,219)</b>	<b>235,160</b>
Financing activities:			
Payments on notes payable	(5,692)	(5,988)	(16,294)
Proceeds from notes payable	450	6,000	5,834
Payments on line of credit			(216,141)
Cash dividends paid	(1,832)	(917)	(868)
Distributions to noncontrolling interests	(9,512)	(6,142)	(7,122)
Purchase of remaining interest of consolidated subsidiary	(1,621)		(4,199)
Other net	87	13	
<b>Cash used by financing activities</b>	<b>(18,120)</b>	<b>(7,034)</b>	<b>(238,790)</b>
Effect of changes in foreign currency exchange rates	1,821	(803)	826
<b>Increase (decrease) in cash and cash equivalents</b>	<b>67,695</b>	<b>(13,647)</b>	<b>38,390</b>
Cash and cash equivalents at beginning of year	140,843	154,490	116,100
<b>Cash and cash equivalents at end of year</b>	<b>208,538</b>	<b>140,843</b>	<b>154,490</b>

See notes to consolidated financial statements.



**Table of Contents****CONSOLIDATED STATEMENTS OF CASH FLOWS**

	For the Years Ended December 31,		
	2012	2011	2010
	(\$000 omitted)		
Supplemental information:			
Receipt of partial building ownership in exchange for debt forgiveness	1,255		
Settlement of wage and hour litigation through issuance of Common Stock		7,582	
Settlement of note payable through issuance of Common Stock held in treasury		1,299	
Changes in financial statement amounts due to purchase of subsidiary:			
Goodwill acquired	4,183	7,631	
Receivables and other assets acquired	(1,675)	5,672	
Intangible assets		1,988	
Liabilities acquired	(1,325)	(3,779)	
Debt assumed		(3,250)	
Cash paid for the acquisition of subsidiaries and other net	1,183	8,262	
Changes in financial statement amounts due to sale and deconsolidation of subsidiaries			
Note receivable	156		2,433
Investments in investees, on an equity method basis	(1,203)		5,315
Goodwill	(440)		(5,902)
Title plants	(491)		(1,048)
Property and equipment, net of accumulated depreciation	(9)		(1,564)
Intangible asset, net of amortization			2,928
Other net	755		(814)
Liabilities	37		1,390
Noncontrolling interests	473		336
Investment and other (gains) losses net	(844)		(1,201)
Change in cash and cash equivalents due to sale and deconsolidation of subsidiaries	(1,566)		1,873
Income taxes net paid (refunded)	6,747	19,259	(41,528)
Interest paid	4,427	4,557	4,775

See notes to consolidated financial statements.



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Three Years Ended December 31, 2012

**NOTE 1**

**General.** Stewart Information Services Corporation, through its subsidiaries (collectively, the Company), is primarily engaged in the business of providing title insurance and real estate related services. The Company operates through a network of production facilities, owned policy-issuing offices and independent agencies in the United States and international markets. Stewart Information Services Corporation is a customer-focused, global title insurance and real estate services company offering products and services through our direct operations, network of approved agencies and other companies within the Company. The Company provides these services to homebuyers and sellers; residential and commercial real estate professionals; mortgage lenders and servicers; title agencies and real estate attorneys; home builders; and United States and foreign governments. The Company also provides loan origination and servicing support; loan review services; loss mitigation; REO asset management; home and personal insurance services; and technology to streamline the real estate process. Approximately 51% of consolidated title revenues for the year ended December 31, 2012 were generated in Texas, California, New York, international operations and Florida.

**A. Management's responsibility.** The accompanying consolidated financial statements were prepared by management, which is responsible for their integrity and objectivity. The financial statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP), including management's best judgments and estimates. Actual results could differ from those estimates.

**B. Reclassifications.** Certain prior year amounts in these consolidated financial statements have been reclassified for comparative purposes. Net earnings (loss) attributable to Stewart and stockholders' equity, as previously reported, were not affected.

**C. Consolidation.** The condensed consolidated financial statements include all subsidiaries in which the Company owns more than 50% voting rights in electing directors. All significant intercompany amounts and transactions have been eliminated and provisions have been made for noncontrolling interests. Unconsolidated investees, in which the Company typically owns 20% through 50% of the equity, are accounted for by the equity method.

**D. Statutory accounting.** Stewart Title Guaranty Company (Guaranty) and other title insurance underwriters owned by the Company prepare financial statements in accordance with statutory accounting practices prescribed or permitted by regulatory authorities. See Notes 2 and 3.

In conforming the statutory financial statements to GAAP, the statutory premium reserve and the reserve for reported title losses are eliminated and, in substitution, amounts are established for estimated title losses (Note 1F). The net effect, after providing for income taxes, is included in the consolidated statements of operations and comprehensive earnings (loss).

**E. Revenue recognition.** Operating revenues from direct title operations are considered earned at the time of the closing of the related real estate transaction. The Company recognizes premium revenues on title insurance policies written by independent agencies (agencies) when the policies are reported to the Company. In addition, where reasonable estimates can be made, the Company accrues for policies issued but not reported until after period end. The Company believes that reasonable estimates can be made when recent and consistent policy issuance information is available. Estimates are based on historical reporting patterns and other information obtained about agencies, as well as current trends in direct operations and in the title industry. In this accrual, future transactions are not being estimated. The Company is estimating revenues on policies that have already been issued by agencies but not yet reported to or received by the Company. The Company has consistently followed the same basic method of estimating unreported policy revenues for more than 10 years.

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Revenues generated by the mortgage services segment are generally considered earned at the time the service is performed or the product is delivered to the customer.

**F. Title losses and related claims.** The Company's method for recording the reserves for title losses on both an interim and annual basis begins with the calculation of its current loss provision rate, which is applied to the Company's current premiums resulting in a title loss expense for the period. This loss provision rate is set to provide for losses on current year policies and is determined using moving average ratios of recent actual policy loss payment experience (net of recoveries) to premium revenues.

At each quarter end, the Company's recorded reserve for title losses begins with the prior period's reserve balance for claim losses, adds the current period provision to that balance and subtracts actual paid claims, resulting in an amount that management compares to its actuarially-based calculation of the ending reserve balance to provide for future reported title losses. The actuarially-based calculation is a paid loss development calculation where loss development factors are selected based on company data and input from the Company's third-party actuaries. The Company also obtains input from third-party actuaries in the form of a reserve analysis utilizing generally accepted actuarial methods. While the Company is responsible for determining its loss reserves, it utilizes this actuarial input to assess the overall reasonableness of its reserve estimation. If the Company's recorded reserve amount is within a reasonable range (+/- 4.0%) of its actuarially-based reserve calculation and the actuary's point estimate, but not at the point estimate, the Company's management assesses the major factors contributing to the different reserve estimates in order to determine the overall reasonableness of its recorded reserve, as well as the position of the recorded reserves relative to the point estimate and the estimated range of reserves. The major factors considered can change from period to period and include items such as current trends in the real estate industry (which management can assess although there is a time lag in the development of this data for use by the actuary), the size and types of claims reported and changes in the Company's claims management process. If the recorded amount is not within a reasonable range of the Company's third-party actuary's point estimate, it will adjust the recorded reserves in the current period and reassess the provision rate on a prospective basis. Once the Company's reserve for title losses is recorded, it is reduced in future periods as a result of claims payments and may be increased or reduced by revisions to the Company's estimate of the overall level of required reserves.

Due to the inherent uncertainty in predicting future title policy losses, significant judgment is required by both the Company's management and its third party actuaries in estimating reserves. As a consequence, the Company's ultimate liability may be materially greater or less than its current reserves and/or its third party actuary's calculated estimate.

**G. Cash equivalents.** Cash equivalents are highly liquid investments with insignificant interest rate risks and maturities of three months or less at the time of acquisition.

**H. Short-term investments.** Short-term investments comprise time deposits with banks, federal government obligations and other investments maturing in less than one year.

**I. Investments in debt and equity securities.** The investment portfolio is classified as available-for-sale. Realized gains and losses on sales of investments are determined using the specific identification method. Net unrealized gains and losses on investments available-for-sale, net of applicable deferred taxes, are included as a component of accumulated other comprehensive earnings within stockholders' equity. At the time unrealized gains and losses become realized, they are reclassified from accumulated other comprehensive earnings using the specific identification method. Any other-than-temporary declines in fair values of investments available-for-sale are charged to earnings.

**J. Property and equipment.** Depreciation is principally computed using the straight-line method at the following rates: buildings 30 to 40 years and furniture and equipment 3 to 10 years. Maintenance and repairs are expensed as incurred while improvements are capitalized. Gains and losses are recognized at disposal.

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**K. Title plants.** Title plants include compilations of a county's official land records, prior examination files, copies of prior title policies, maps and related materials that are geographically indexed to a specific property. The costs of acquiring existing title plants and creating new ones, prior to the time such plants are placed in operation, are capitalized. Title plants are not amortized since there is no indication of any loss of value over time but are subject to review for impairment. The costs of maintaining and operating title plants are expensed as incurred. Gains and losses on sales of copies of title plants or interests in title plants are recognized at the time of sale.

**L. Goodwill.** Goodwill is the excess of the purchase price over the fair value of net assets acquired. Goodwill is not amortized but is reviewed annually and upon the occurrence of an event indicating an impairment may have occurred. If determined to be impaired, the impaired portion is expensed to current operations. The process of determining impairment relies on projections of future cash flows, operating results and market conditions. Uncertainties exist in these projections and are subject to changes relating to factors such as interest rates and overall real estate market conditions. As part of our process, we have an option to assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If we decide not to use a qualitative assessment or if we fail the qualitative assessment, then we obtain input from third-party appraisers regarding the fair value of our reporting units. While we are responsible for assessing whether an impairment of goodwill exists, we utilize the input from third-party appraisers to assess the overall reasonableness of our conclusions. We utilized a qualitative assessment for our annual goodwill impairment test and, based on our analysis, determined it was not more-likely-than-not that the fair value of our reporting units were less than their carrying amounts as of June 30, 2012. There were no impairment charges for goodwill during the three years ended December 31, 2012. However, to the extent that the Company's future operating results are below management's projections, or in the event of continued adverse market conditions, a future impairment may occur.

**M. Acquired intangibles.** Intangible assets are comprised mainly of non-compete and underwriting agreements and are amortized over their estimated lives, which are primarily 3 to 10 years.

**N. Other long-lived assets.** The Company reviews the carrying values of title plants and other long-lived assets if certain events occur that may indicate impairment. An impairment of these long-lived assets is indicated when projected undiscounted cash flows over the estimated lives of the assets are less than carrying values. If impairment is determined by management, the recorded amounts are written down to fair values. There were no impairment write-offs of long-lived assets during the three years ended December 31, 2012.

The Company had cost-basis investments aggregating \$7.1 million and \$7.7 million at December 31, 2012 and 2011, respectively. Cost-basis investments are included in other assets on the Company's consolidated balance sheets and are evaluated periodically for impairment. The Company recorded impairment charges of \$0.8 million, \$3.5 million and \$0.6 million for cost-basis investments during the years ended December 31, 2012, 2011 and 2010, respectively.

**O. Fair values.** The fair values of financial instruments, including cash and cash equivalents, short-term investments, notes receivable, notes payable and accounts payable, are determined by the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal, or most advantageous, market for the asset or liability in an orderly transaction between market participants at the measurement date. The fair values of these financial instruments approximate their carrying values, except for the fair value of the Notes which approximated \$135.3 million at December 31, 2012. Investments in debt and equity securities and certain financial instruments are carried at their fair values (Notes 4 and 5).

**P. Leases.** The Company recognizes rent expense under non-cancelable operating leases, which generally expire over the next 10 years, on the straight-line basis over the terms of the leases, including provisions for any free rent periods or escalating lease payments.

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**Q. Income taxes.** Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the tax basis and the book carrying values of certain assets and liabilities. To the extent that the Company does not believe its deferred tax assets meet the more likely than not realization criteria, it establishes a valuation allowance. When it establishes a valuation allowance, or increases (decreases) the allowance during the year, it records a tax expense (benefit) in its consolidated statements of operations and comprehensive earnings (loss). Enacted tax rates are used in calculating amounts.

The Company also specifies the accounting for uncertainties in income taxes by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

**NOTE 2**

**Restrictions on cash and investments.** Investments restricted for statutory reserve funds of \$444.6 million and \$397.1 million and cash and cash equivalents of \$12.1 million and \$23.6 million at December 31, 2012 and 2011, respectively, were maintained to comply with legal requirements requiring fully-funded statutory premium reserves and state deposits. These funds are not available for any other purpose. In the event that insurance regulators adjust the determination of the statutory premium reserves of the Company's title insurers, these restricted funds as well as statutory surplus would correspondingly increase or decrease.

A substantial majority of consolidated cash and investments at each year end was held by the Company's title insurance subsidiaries. Generally, the types of investments a title insurer can make are subject to legal restrictions. Furthermore, the transfer of funds by a title insurer to its parent or subsidiary operations, as well as other related party transactions, is restricted by law and generally requires the approval of state insurance authorities.

**NOTE 3**

**Dividend restrictions.** Substantially all of the consolidated retained earnings at each year end were represented by Guaranty, which owns directly or indirectly all of the subsidiaries included in the consolidation.

Guaranty cannot pay a dividend to its parent in excess of certain limits without the approval of the Texas Insurance Commissioner. The maximum dividend that can be paid after such approval in 2013 is \$85.8 million. Guaranty did not pay a dividend in 2012, 2011 or 2010.

Dividends from Guaranty are also voluntarily restricted primarily to maintain statutory surplus and liquidity at competitive levels and to demonstrate significant claims payment ability. The ability of a title insurer to pay claims can significantly affect the decision of lenders and other customers when buying a policy from a particular insurer.

Surplus as regards policyholders for Guaranty was \$429.2 million and \$371.8 million at December 31, 2012 and 2011, respectively. Statutory net income for Guaranty was \$10.5 million in 2012 and net losses were \$4.2 million and \$2.0 million in 2011 and 2010, respectively.

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**Investments in debt and equity securities.** The amortized costs and fair values at December 31 follow:

	2012		2011	
	Amortized costs	Fair values	Amortized costs	Fair values
	(\$000 omitted)			
Debt securities:				
Municipal	18,012	19,011	26,721	27,801
Corporate and utilities	268,874	287,528	237,912	244,123
Foreign	168,084	169,009	162,384	164,268
U.S. Government	15,243	16,638	17,530	19,350
Equity securities	10,870	11,073	5,005	5,443
	481,083	503,259	449,552	460,985

Gross unrealized gains and losses at December 31 were:

	2012		2011	
	Gains	Losses	Gains	Losses
	(\$000 omitted)			
Debt securities:				
Municipal	1,006	7	1,080	
Corporate and utilities	19,141	486	9,184	2,973
Foreign	1,210	286	1,937	53
U.S. Government	1,395		1,820	
Equity securities	278	75	442	4
	23,030	854	14,463	3,030

Debt securities at December 31, 2012 mature, according to their contractual terms, as follows (actual maturities may differ due to call or prepayment rights):

	Amortized costs	Fair values
	(\$000 omitted)	
In one year or less	17,673	17,905
After one year through five years	211,288	217,187
After five years through ten years	208,966	222,499
After ten years	32,286	34,595
	470,213	492,186

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Gross unrealized losses on investments and the fair values of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2012, were:

	Less than 12 months		More than 12 months		Total	
	Losses	Fair values	Losses	Fair values	Losses	Fair values
	(\$000 omitted)					
<b>Debt securities:</b>						
Municipal	7	697			7	697
Corporate and utilities	486	30,538			486	30,538
Foreign	168	41,056	118	59,538	286	100,594
<b>Equity securities:</b>	75	2,197			75	2,197
	736	74,488	118	59,538	854	134,026

The number of investments in an unrealized loss position as of December 31, 2012 was 30. Since the Company does not intend to sell and will more likely than not maintain each debt security until its anticipated recovery, and no significant credit risk is deemed to exist, these investments are not considered other-than-temporarily impaired.

Gross unrealized losses on investments and the fair values of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2011, were:

	Less than 12 months		More than 12 months		Total	
	Losses	Fair values	Losses	Fair values	Losses	Fair values
	(\$000 omitted)					
<b>Debt securities:</b>						
Corporate and utilities	1,944	42,851	1,029	24,830	2,973	67,681
Foreign	53	59,708			53	59,708
<b>Equity securities:</b>	4	1,247			4	1,247
	2,001	103,806	1,029	24,830	3,030	128,636

The number of investments in an unrealized loss position as of December 31, 2011 was 52. Since the Company did not intend to sell and was more likely than not maintain each debt security until its anticipated recovery, and no significant credit risk was deemed to exist, these investments were not considered other-than-temporarily impaired.

The Company believes its investment portfolio is diversified and expects no material loss to result from the failure to perform by issuers of the debt securities it holds. Investments made by the Company are not collateralized. Foreign debt securities primarily include Canadian government bonds and corporate bonds which aggregated \$143.3 million as of December 31, 2012 and Canadian government bonds which aggregated \$136.6 million as of December 31, 2011. Also included in foreign debt securities are United Kingdom treasury bonds as of December 31, 2012 and 2011.

**NOTE 5**

**Fair value measurements.** The Fair Value Measurements and Disclosures Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal, or most advantageous, market for the asset or liability in an orderly transaction between market participants at the measurement date. The Fair Values Measurements and Disclosures Topic establishes a three-level

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fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs when possible. The three levels of inputs used to measure fair value are as follows:

Level 1 quoted prices in active markets for identical assets or liabilities;

Level 2 observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data; and

Level 3 unobservable inputs that are supported by little or no market activity and that are significant to the fair values of the assets or liabilities, including certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

At December 31, 2012, financial instruments measured at fair value on a recurring basis are summarized below:

	Level 1	Level 2	Level 3	Fair value measurements
		(\$000 omitted)		
Short-term investments	37,025			37,025
Investments available-for-sale:				
Debt securities:				
Municipal		19,011		19,011
Corporate and utilities		287,528		287,528
Foreign		169,009		169,009
U.S. Government		16,638		16,638
Equity securities:	11,073			11,073
	48,098	492,186		540,284

At December 31, 2011, financial instruments measured at fair value on a recurring basis are summarized below:

	Level 1	Level 2	Level 3	Fair value measurements
		(\$000 omitted)		
Short-term investments	33,137			33,137
Investments available-for-sale:				
Debt securities:				
Municipal		27,801		27,801
Corporate and utilities		244,123		244,123
Foreign		164,268		164,268
U.S. Government		19,350		19,350
Equity securities:	5,443			5,443
	38,580	455,542		494,122

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At December 31, 2012, Level 1 financial instruments consist of short-term investments and equity securities. Level 2 financial instruments consist of governmental, corporate and utilities bonds, both U.S. and foreign. In accordance with the Company's policies and guidelines, the Company's third party, registered investment manager invests only in securities rated as investment grade or higher by the major rating services, where observable valuation inputs are significant. All municipal bonds are valued using a third-party pricing service, and the corporate bonds are valued using the market approach, which includes three to ten inputs from relevant market sources, including Financial Industry Regulatory Authority's (FINRA) Trade Reporting and Compliance Engine (TRACE) and independent broker/dealer quotes, bids and offerings, as well as other relevant market data, such as securities with similar characteristics (i.e. sector, rating, maturity, etc.). Broker/dealer quotes, bids and offerings mentioned above are gathered (typically three to ten) and a consensus risk premium spread (credit spread) over risk-free Treasury yields is developed from the inputs obtained, which is then used to calculate the resulting fair value.

As of December 31, 2012, assets measured at fair value on a nonrecurring basis are summarized below:

	Level 3	Impairment loss recorded (\$000 omitted)
Cost-basis investments	1,640	753

The carrying amount of certain cost-basis investments exceeded their fair value and an impairment charge of \$0.8 million was recorded in investment and other gains (losses) net in 2012. The valuations were based on the values of the underlying assets of the investee.

As of December 31, 2011, assets measured at fair value on a nonrecurring basis are summarized below:

	Level 3	Impairment loss recorded (\$000 omitted)
Cost-basis investments	1,167	2,685

The carrying amount of certain cost-basis investments exceeded their fair value and an impairment charge of \$2.7 million was recorded in investment and other gains (losses) net in 2011. The valuations were based on the values of the underlying assets of the investee.

**NOTE 6**

**Investment income.** Income from investments and gross realized investment and other gains and losses follow:

	2012	2011	2010
	(\$000 omitted)		
<b>Investment income:</b>			
Debt securities	12,399	13,860	15,014
Short-term investments, cash equivalents and other	1,410	1,645	3,383
	13,809	15,505	18,397
<b>Investment and other gains (losses):</b>			
Realized gains	9,417	12,151	24,055
Realized losses	(1,839)	(9,849)	(2,273)
	7,578	2,302	21,782





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Proceeds from the sales of investments available-for-sale were \$134.8 million, \$292.0 million and \$280.9 million for the years ended December 31, 2012, 2011 and 2010, respectively. Expenses assignable to investment income were insignificant. There were no significant investments at December 31, 2012 that did not produce income during the year.

In 2012, investment and other gains (losses) net included realized gains of \$8.0 million from the sale of debt and investments available-for-sale and sale of fixed assets, partially offset by realized losses of \$0.8 million for the impairment of cost-basis investments.

In 2011, investment and other gains (losses) net included realized gains of \$10.7 million from the sale of debt and investments available-for-sale, partially offset by realized losses of \$3.5 million for the impairment of cost-basis investments and \$4.3 million from a loss on a third-party loan guarantee obligation.

In 2010, investment and other gains (losses) net included realized gains of \$11.8 million from the sale of debt and investments available-for-sale, \$6.3 million primarily from a transfer of the rights to internally developed software, \$1.2 million from the sale of interests in subsidiaries and \$3.0 million from the sale of real estate.

**NOTE 7**

**Income taxes.** The income tax provision consists of the following:

	2012	2011	2010
	(\$000 omitted)		
<b>Current:</b>			
Federal	(430)	(678)	(4,305)
State	1,674	1,444	1,188
Foreign	9,024	9,221	337
<b>Deferred:</b>			
Federal	(35,989)	4,450	(1,197)
State	(527)	397	
Foreign	(3,391)	(5,493)	12,052
<b>Income tax (benefit) expense</b>	<b>(29,639)</b>	<b>9,341</b>	<b>8,075</b>

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The following reconciles federal income taxes computed at the statutory rate with income taxes as reported.

	2012	2011	2010
	(\$000 omitted)		
Expected income tax expense (benefit) at 35% <sup>(1)</sup>	27,842	4,091	(1,577)
Foreign tax rate differential	(2,688)	(764)	613
Taxable income (non-consolidated subsidiaries for tax)	768	946	832
Intercompany dividends	921	572	738
Research and development credit		(74)	(1,223)
State income tax expense (benefit) net of taxes	1,147	884	(178)
Tax-exempt interest	(216)	(342)	(561)
Non-deductible expenses	5,861	2,624	2,261
Loss carrybacks	(1,442)	(1,829)	
Adjustments to deferred tax liabilities	9,371	10,781	8,716
Dividends received deductions on investments	(634)	(500)	(656)
Valuation allowance	(71,106)	(7,163)	(1,146)
Other net	537	115	256
Income tax (benefit) expense	(29,639)	9,341	8,075
Effective income tax rates (%) <sup>(1)</sup>	(37.3)	79.9	(179.2)

<sup>(1)</sup> Calculated using income (loss) before taxes and after noncontrolling interests.  
Deferred income taxes at December 31, 2012 and 2011 were as follows:

	2012	2011
	(\$000 omitted)	
Deferred tax assets:		
Accrued expenses	15,630	12,684
Allowance for uncollectible amounts	4,575	5,784
Fixed assets	4,683	7,502
Investments		10,390
Net operating loss carryforwards	3,926	32,122
Tax credit carryforwards	27,072	18,727
Title loss provisions	8,479	11,235
Other	484	4,195
	64,849	102,639
Valuation allowance	(12,136)	(84,771)
	52,713	17,868
Deferred tax liabilities:		
Amortization goodwill and other intangibles	(27,528)	(23,701)
Unrealized gains on investments	(7,802)	(4,003)
Cash surrender value of insurance policies	(2,998)	(4,431)
Foreign currency translation adjustments	(5,753)	(4,999)
Accrued expenses	(2,781)	(6,592)
Investments	(477)	

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Fixed assets	(345)	(139)
Other	(112)	(1,452)
	(47,796)	(45,317)
Net deferred income taxes	4,917	(27,449)

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Net deferred tax assets for U.S. federal tax paying components totaled approximately \$7.6 million and net deferred tax liabilities for foreign tax paying components totaled approximately \$2.7 million.

During 2008, the Company recorded valuation allowances against U.S. deferred tax assets, net of definite-lived deferred tax liabilities, for which realization could not be assured based on a more-likely-than-not standard. The Company retained that valuation allowance for all subsequent periods through December 31, 2011 principally due to the Company's cumulative three-year operating loss history as of the end of each period. The Company routinely evaluates the extent to which the valuation allowance may be reversed. During 2012, the Company utilized approximately \$87.2 million of U.S. federal net operating loss carry forwards (NOL). Remaining NOLs will begin to expire in 2030, if not utilized. During 2012, the Company released approximately \$72.6 million of its valuation allowance, \$36.6 million of which is included in the Company's deferred tax benefit.

The Company is routinely subject to income tax examinations by U.S. federal, international and state and local tax authorities. The Company is currently under examination by the Internal Revenue Service for calendar years 2005 through 2008. The Company also is involved in routine examinations by state and local tax jurisdictions for calendar years 2007 and 2008. The Company expects no material adjustment from any examination.

**NOTE 8**

**Goodwill and acquired intangibles.** A summary of goodwill follows:

	Title	Mortgage Services (\$000 omitted)	Total
Balances at December 31, 2010	192,670	14,191	206,861
Acquisitions		7,631	7,631
Balances at December 31, 2011	192,670	21,822	214,492
Acquisitions	6,029	434	6,463
Balances at December 31, 2012	198,699	22,256	220,955

Amortization expense for acquired intangibles was \$1.7 million, \$1.5 million and \$1.1 million in 2012, 2011 and 2010, respectively. Accumulated amortization of intangibles was \$27.5 million and \$25.8 million at December 31, 2012 and 2011, respectively. In each of the years 2013 through 2017, amortization expense is expected to be less than \$1.7 million.

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**Equity investees.** Certain summarized aggregate financial information for equity investees (in which the Company typically owns 20% through 50% of the equity) follows:

	2012	2011	2010
	(\$000 omitted)		
For the year:			
Revenues	66,145	70,896	73,450
Net earnings	11,037	4,326	6,976
At December 31:			
Total assets	52,500	57,972	31,767
Notes payable	23,681	23,533	1,119
Stockholders' equity	12,758	12,524	16,027

Net premium revenues from policies issued by equity investees were approximately \$6.0 million, \$6.4 million and \$6.9 million in 2012, 2011 and 2010, respectively. Earnings related to equity investees were \$4.3 million, \$1.7 million and \$2.4 million in 2012, 2011 and 2010, respectively. These amounts are included in title insurance direct operations in the consolidated statements of operations and comprehensive earnings (loss).

Goodwill related to equity investees was \$9.1 million and \$12.1 million at December 31, 2012 and 2011, respectively, and these balances are included in investments in investees in the consolidated balance sheets. Equity investments, including the related goodwill balances, are reviewed for impairment annually and upon the occurrence of an event indicating an impairment may have occurred.

**NOTE 10****Notes payable, convertible senior notes and line of credit.**

A summary of notes payable follows:

	2012	2011
	(\$000 omitted)	
Banks primarily secured, varying payments and rates <sup>(1)</sup>	6,031	7,863
Other than banks	450	3,859
	6,481	11,722

<sup>(1)</sup> Average interest rates were 3.07% and 3.49% at December 31, 2012 and 2011, respectively.

Principal payments on the notes, based upon the contractual maturities, are due in the amounts of \$2.0 million in 2013, \$2.0 million in 2014, \$1.9 million in 2015 and \$.6 million in 2016.

In October 2009, the Company entered into an agreement providing for the sale of \$65.0 million aggregate principal amount of 6.0% Convertible Senior Notes due 2014 (Notes) to an initial purchaser for resale to certain qualified institutional buyers in compliance with Rule 144A under the Securities Act of 1933, as amended. The Notes will mature in 2014 unless converted into the Company's common stock earlier and are guaranteed by certain wholly-owned domestic subsidiaries of the Company. In January 2013, the Company converted approximately \$20.7 million of Notes into 1,691,074 shares of Common Stock.

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The Notes are convertible into shares of the Company's Common Stock at a conversion rate of 77.6398 shares per \$1,000 principal amount of Notes (equal to a conversion price of \$12.88 per share), which will be adjusted for certain antidilutive provisions such as a dividend or distribution of shares of Common Stock, split or combination of shares of Common Stock; the issuance of rights or warrants entitling all or substantially all holders of Common Stock to subscribe for or purchase shares of Common Stock at a price per share less than the average of the Last Reported Sale Prices of Common Stock (as defined in the Indenture); the distribution of shares of any class of capital stock of the Company, evidences of its indebtedness, other assets or property of the Company or rights or warrants to acquire the Company's capital stock or other securities to all or substantially all holders of its Common Stock; or any cash dividend or distribution made to all or substantially all holders of Common Stock during any annual fiscal period that exceeds \$0.10 per share of Common Stock.

The Company incurred \$3.3 million of debt issuance costs related to the Notes. The issuance costs were primarily related to discounts, commissions and offering expenses payable by the Company. The Company recorded the issuance costs in other assets and is amortizing them over the term of the Notes using the effective interest method. The amortization of the debt issuance costs was \$0.6 million, \$0.5 million and \$0.5 million and interest expense on the Notes was \$4.2 million, \$4.2 million and \$4.2 million in 2012, 2011, and 2010, respectively.

As of December 31, 2012, the Company also had available a \$10.0 million bank line of credit commitment, which expires in June 2013, under which no borrowings were outstanding.

**NOTE 11****Estimated title losses.**

	2012	2011 (\$000 omitted)	2010
Balances at January 1	502,611	495,849	503,475
Provisions:			
Current year	100,406	94,115	97,559
Previous policy years	39,623	47,986	50,879
<b>Total provisions</b>	<b>140,029</b>	<b>142,101</b>	<b>148,438</b>
Payments:			
Current year	(16,782)	(22,404)	(24,118)
Previous policy years	(107,194)	(111,915)	(134,191)
<b>Total payments</b>	<b>(123,976)</b>	<b>(134,319)</b>	<b>(158,309)</b>
Effects of changes in foreign currency exchange rates	1,711	(1,020)	2,245
<b>Balances at December 31</b>	<b>520,375</b>	<b>502,611</b>	<b>495,849</b>

Provisions for title losses, as a percentage of title operating revenues, were 8.1%, 9.4% and 9.6% in 2012, 2011 and 2010, respectively. The total provisions included charges (above the annual provisioning rate) of \$18.2 million, \$24.6 million and \$13.3 million for large title claims, including defalcations, in 2012, 2011 and 2010, respectively. The charges were reduced by insurance recoveries received of \$0.5 million, \$2.4 million and \$2.8 million in 2012, 2011 and 2010, respectively.

The years ended 2012, 2011 and 2010 included \$14.9 million, \$15.0 million and \$26.7 million, respectively, related to maintaining a high provisioning rate for title losses due to continued elevated claims payment experience and \$24.3 million, \$32.8 million and \$19.2 million, respectively, related to large title losses. During 2012 our overall loss experience continued to improve relative to prior year periods and was generally in line with our actuarial expectations, which allowed us to lower the overall loss provision rate effective with policies issued in the third quarter 2012. The previous policy years' title loss provision amounts in 2010 included a reserve strengthening adjustment of \$4.8 million, related to higher than expected loss payment experience for policy years 2005 through 2008.

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**NOTE 12**

**Common Stock and Class B Common Stock.** Holders of Common and Class B Common Stock have the same rights except no cash dividends may be paid on Class B Common Stock. The two classes of stock vote separately when electing directors and on any amendment to the Company's certificate of incorporation that affects the two classes unequally.

A provision of the by-laws requires an affirmative vote of at least two-thirds of the directors to elect officers or to approve any proposal that may come before the directors. This provision cannot be changed without a majority vote of each class of stock.

Holders of Class B Common Stock may, with no cumulative voting rights, elect four of nine directors if 1,050,000 or more shares of Class B Common Stock are outstanding; three directors if between 600,000 and 1,050,000 shares are outstanding; and none if less than 600,000 shares of Class B Common Stock are outstanding. Holders of Common Stock, with cumulative voting rights, elect the balance of the nine directors.

Class B Common Stock may be converted by its stockholders into Common Stock on a share-for-share basis, although the holders of Class B Common Stock have agreed among themselves not to convert their stock. The agreement may be extended or terminated by them at any time. Such conversion is mandatory on any transfer to a person who is not a lineal descendant (or spouse or trustee of such descendant) of William H. Stewart, founder of Stewart Title Guaranty Company.

At December 31, 2012 and 2011, there were 145,820 shares of Common Stock held by a subsidiary of the Company which are considered treasury shares.



**Table of Contents****NOTE 13****Changes in stockholders' equity.**

	Common and Class B Common Stock (\$1 par value)	Additional paid-in capital	Accumulated other comprehensive earnings (\$000 omitted)	Retained Earnings	Treasury stock	Noncontrolling interests
Balances at December 31, 2009	18,708	126,822	10,960	296,116	(4,330)	13,790
Net (loss) attributable to Stewart				(12,582)		
Cash dividends on common stock (\$0.05 per share)				(868)		
Stock bonuses and other	143	1,284				
Purchase of remaining interest of consolidated subsidiary		(3,693)				(506)
Provision for Canadian taxes			(1,185)			
Net change in unrealized gains and losses on investments			1,448			
Net realized gain reclassification			(1,142)			
Foreign currency translation			3,529			
Net earnings attributable to noncontrolling interests						7,432
Subsidiary dividends paid to noncontrolling interests						(7,122)
Net effect of changes in ownership and other						(471)
Balances at December 31, 2010	18,851	124,413	13,610	282,666	(4,330)	13,123
Net earnings attributable to Stewart				2,348		
Cash dividends on common stock (\$0.05 per share)				(917)		
Stock bonuses and other	169	1,452				
Settlement of wage and hour litigation through issuance of Common Stock	636	6,946				
Settlement of note payable through issuance of Common Stock held in treasury		(365)				