STEWART INFORMATION SERVICES CORP
Form 10-K
February 28, 2014
**Table of Contents**

# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-K

**(Mark One)**

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

**For the fiscal year ended December 31, 2013**

**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)**

| | |
|---|---|
| **Delaware** | **74-1677330** |
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |
| **1980 Post Oak Blvd., Houston TX** | **77056** |
| **(Address of principal executive offices)** | **(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** | **New York Stock Exchange** |
| **(Title of each class of stock)** | **(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 þ

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 þ

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 þ 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 þ 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. þ

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 | þ |
| 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 þ

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, 2013) held by non-affiliates of the Registrant was approximately $560,226,000.

At February 25, 2014, the following shares of each of the registrant s classes of stock were outstanding:

| | |
|---|---|
| Common, $1 par value | 21,451,588 |
| Class B Common, $1 par value | 1,050,012 |

**Documents Incorporated by Reference**

Portions of the definitive proxy statement (the Proxy Statement) are incorporated herein by reference in Part III of this document.

**Table of Contents**

**FORM 10-K ANNUAL REPORT**

**YEAR ENDED DECEMBER 31, 2013**

**TABLE OF CONTENTS**



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.

Table of Contents

## 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 governments. Stewart also provides loan origination and servicing support; loan review services; loss mitigation; REO asset management; home and personal insurance services; loan due diligence; compliance solutions; service performance management 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, 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.

<u>Examination and closing</u>. 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.

<u>Title insurance policies</u>. 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.

**Table of Contents**

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 policyholders 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 estimated 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.

**Table of Contents**

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 (2013 figures are preliminary and subject to revision):

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| New home sales in millions | 0.43 | 0.37 | 0.30 |
| Existing home sales in millions | 4.48 | 4.13 | 3.79 |
| Existing home sales median sales price in $ thousands | 197.4 | 177.2 | 166.2 |

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, other energy-related projects 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 most states.

The financial strength and stability of the title underwriter are important factors in maintaining and increasing our business, particularly commercial business. 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., A- 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 2013 unconsolidated statutory net premiums written through September 30, 2013, 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, Alamo Title Insurance, Lawyers Title and Ticor Title), 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.

Table of Contents

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

| | Amounts ($ millions) | | | Percentages | | |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2011 | 2013 | 2012 | 2011 |
| Texas | 328 | 292 | 242 | 18 | 17 | 16 |
| New York | 219 | 190 | 164 | 12 | 11 | 11 |
| California | 146 | 203 | 181 | 8 | 12 | 12 |
| International | 118 | 117 | 109 | 7 | 7 | 7 |
| Florida | 73 | 70 | 61 | 4 | 4 | 4 |
| All others | 912 | 859 | 753 | 51 | 49 | 50 |
| | 1,796 | 1,731 | 1,510 | 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 mortgage origination support, component servicing, default and REO services, including post-closing outsourcing, portfolio due diligence, mortgage compliance solutions and servicer oversight to residential mortgage lenders, servicers and investors.

PropertyInfo® Corporation offers technology to support title operations. PropertyInfo® offers a title and escrow 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 originations, foreclosures or other distressed property activity. Revenues related to many services are generated on a project basis.

Companies that compete with our mortgage services businesses 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 Insurance Services 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.

Table of Contents

**Corporate**

The corporate segment consists of the expenses of the parent holding company, certain other corporate overhead expenses, and the costs of our centralized support operations not otherwise 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, as are certain realized gains or losses.

**General**

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-Title®, 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, 2013, we employed approximately 6,600 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) 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), 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 P.O. Box 30170, College Station, TX, 77842-3170. Its phone number is (888) 478-2392 and website is 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 2013 Form 10-K. Stewart Information Services Corporation submitted a Section 12(a) CEO Certification to the New York Stock Exchange in 2013.

Table of Contents

**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.

***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 and their holding companies have significantly greater capital. 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.

Table of Contents

***Availability of credit may reduce our liquidity and negatively impact our ability to fund operating losses 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., A- 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.

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;

**Table of Contents**

- 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, Office of the Comptroller of the Currency or other agencies.

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 changes in the industry 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.

***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.

8

Table of Contents

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.

***Information technology systems present potential targets for cyber security attacks.***

We are reliant on technology to improve efficiency in our business. These systems could be a potential target for a cyber security attack as they are used to store and process sensitive information regarding our operations, financial position and any information pertaining to our customers and vendors. While we take the utmost precautions, we cannot guarantee safety from all threats and attacks. Any successful breach of security could result in the spread of inaccurate or confidential information, disruption of operations, endangerment of employees, damage to our assets and increased costs to respond. Any of these instances could have a negative impact on cash flows, litigation status and/or our reputation, which could have a material adverse effect on our business, financial conditions and operations. While we maintain cyber liability insurance, there is no assurance that these instances would not have a negative impact on cash flows, litigation status and/or our reputation, which could have a material adverse effect on our business, financial condition and operations.

**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 520 additional locations that are used for title office operations or production, administrative and technology centers. These additional locations include significant leased facilities in Denver, Austin, Dallas, Los Angeles, New York and Toronto.

Our leases expire from 2014 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 $39.2 million in 2013.

We also own 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.

**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, 2013.

**Table of Contents**

**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 |
|---|---|---|
| 2013: | | |
| First quarter | $ 29.96 | $ 22.74 |
| Second quarter | 30.04 | 23.74 |
| Third quarter | 34.39 | 25.73 |
| Fourth quarter | 32.50 | 28.87 |
| 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 |

As of February 25, 2014, the number of stockholders of record was approximately 6,300 and the price of one share of our Common Stock was $36.17.

The Board of Directors declared an annual cash dividend of $0.10 per share payable December 27, 2013 and December 28, 2012, respectively, to Common stockholders of record on December 9, 2013 and December 14, 2012, 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 $29.47 and $29.91 at December 31, 2013 and 2012, respectively. As of December 31, 2013, book value per share was based on approximately $663.1 million in stockholders equity and 22,501,030 shares of Common Stock and Class B Common Stock outstanding, excluding the effects of possible conversion of Convertible Senior Notes due October 2014 (Notes) into Common Stock. 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 Stock and Class B Common Stock outstanding, excluding the effects of possible conversion of Notes into Common Stock.

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, 2013. The graph assumes that the value of the investment in our Common Stock and each index was $100 at December 31, 2008 and that all dividends were reinvested.

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|
| Stewart | 100.00 | 48.23 | 49.52 | 49.82 | 112.57 | 140.15 |
| Russell 2000 | 100.00 | 127.17 | 161.32 | 154.59 | 179.79 | 249.60 |
| Russell 2000 Financial Services Sector | 100.00 | 99.92 | 120.27 | 116.80 | 142.08 | 186.70 |

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.

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| | ($ millions, except share and per share data) | | | | |
| Total revenues | 1,928.0 | 1,910.4 | 1,634.9 | 1,672.4 | 1,707.3 |
| Title operating revenues | 1,796.4 | 1,730.9 | 1,510.4 | 1,546.5 | 1,615.5 |
| Mortgage services revenues | 117.1 | 158.1 | 106.7 | 85.7 | 63.6 |
| Investment income | 15.5 | 13.8 | 15.5 | 18.4 | 20.8 |
| Investment (losses) gains | (1.1) | 7.6 | 2.3 | 21.8 | 7.4 |
| Title loss provisions | 106.3 | 140.0 | 142.1 | 148.4 | 182.8 |
| % title operating revenues | 5.9 | 8.1 | 9.4 | 9.6 | 11.3 |
| Pretax earnings (loss)[(1)] | 101.1 | 89.3 | 18.0 | 2.9 | (62.2) |
| Net earnings (loss) attributable to Stewart | 63.0 | 109.2 | 2.3 | (12.6) | (51.0) |
| Cash provided (used) by operations | 87.2 | 120.5 | 23.4 | 41.2 | (17.0) |
| Total assets | 1,326.1 | 1,291.2 | 1,156.1 | 1,141.2 | 1,369.2 |
| Long-term debt | 2.7 | 71.2 | 76.2 | 71.2 | 67.8 |
| Stockholders equity | 663.1 | 580.4 | 463.5 | 448.3 | 462.1 |
| Per share data: | | | | | |
| Average shares dilutive (millions) | 24.7 | 24.4 | 19.1 | 18.3 | 18.2 |
| Basic earnings (loss) attributable to Stewart | 2.85 | 5.66 | 0.12 | (0.69) | (2.80) |
| Diluted earnings (loss) attributable to Stewart | 2.60 | 4.61 | 0.12 | (0.69) | (2.80) |
| Cash dividends | 0.10 | 0.10 | 0.05 | 0.05 | 0.05 |
| Stockholders equity | 29.47 | 29.91 | 24.01 | 24.40 | 25.34 |
| Market price: | | | | | |
| High | 34.39 | 28.35 | 12.74 | 14.93 | 23.75 |
| Low | 22.74 | 11.54 | 8.13 | 7.80 | 8.45 |
| Year end | 32.27 | 26.00 | 11.55 | 11.53 | 11.28 |

(1) Pretax figures are before noncontrolling interests.

Table of Contents

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

**MANAGEMENT S OVERVIEW**

For the year ended December 31, 2013, net earnings attributable to Stewart of $63.0 million, or $2.60 per diluted share, represents a decrease of $46.2 million from the same period in 2012. The decline in net earnings is attributable to the decrease in earnings in our mortgage services segment and to the impact of a higher reversal of the tax asset valuation allowance in 2012 than in 2013. Pretax earnings for the year ended December 31, 2013 were $101.1 million, an increase of $11.7 million from the same period in 2012. Results for the year ended December 31, 2013 include a non-cash charge of $5.4 million, or $0.22 per diluted share, relating to the early retirement of $37.8 million of our 6% Convertible Senior Notes due October 2014, as well as gains of $2.3 million, or $0.09 per diluted share, on non-title-related insurance policy proceeds (no tax benefit or expense is associated with either item; thus there was no tax-related effect on earnings per share).

Total revenues for 2013 were $1,928.0 million, an increase of $17.6 million, or 0.9%, from $1,910.4 million for the 2012 year.

Our title segment revenues declined 10.5% and 16.2% from the fourth quarter 2012 and third quarter 2013, respectively. Refinancing originations, and therefore title orders, fell significantly from the prior year quarter, and, although existing home sales continue to show improvement on a twelve month moving average basis, existing home sales on an unadjusted basis declined almost 8% over the prior year period. In the fourth quarter 2013, the title segment generated a pretax margin of 11.1%, an improvement of 120 basis points from fourth quarter 2012 and, sequentially, a decrease of 120 basis points from the third quarter 2013. Revenues from direct operations for the fourth quarter 2013 decreased 7.3% compared to the same quarter last year and 9.8% sequentially from the third quarter 2013. U.S. and Canadian commercial revenues increased 11.3% to $42.3 million from the fourth quarter 2012 and increased sequentially by 34.7% from the third quarter 2013. International operating revenues (including foreign-sourced commercial revenues) decreased 0.8% to $27.9 million from the fourth quarter 2012 and sequentially by 18.8% from the third quarter 2013.

Revenues from our mortgage services segment were $25.6 million for the fourth quarter 2013, as compared to $46.7 million in the fourth quarter 2012, largely due to the project-based nature of the contracts in this segment. We are transitioning from this segment s historical service offerings for the management of defaulted and distressed loans to a more sustainable suite of service offerings to support the ongoing loan origination and servicing support needs of lenders in a heightened regulatory environment. Many lending institutions are under pressure to maintain earnings while managing the rising costs of regulatory compliance, which we believe will drive increased demand for the outsourced solutions we offer. We are focused on reducing expenses in the segment; however, we were unable to achieve efficiencies fast enough to offset the decline in revenues. As a result, the segment reported a pretax loss of $1.6 million in the fourth quarter 2013 compared to pretax earnings of $14.2 million and a pretax loss of $1.4 million for the fourth quarter 2012 and third quarter 2013, respectively.

Title policy loss development continued to improve during the fourth quarter 2013, reflecting an ongoing decline in prior policy year loss experience on non-large title losses as well as our continued attention to prudent risk management with emphasis on the quality and profitability of our independent agency network. As a percentage of title revenues, title losses were 6.2% in the fourth quarter 2013, a decrease of 140 basis points from the fourth quarter 2012 and 30 basis points from the third quarter 2013. For the year, title losses as a percentage of title revenues decreased to 5.9% in 2013 from 8.1% in 2012. The decrease in the title loss ratio was due to lower provisioning rates in 2013 compared to 2012, while higher losses in the current year relating to large title losses were offset by non-large loss reserve reductions of a net $2.8 million for the year. Total balance sheet policy loss reserves were $506.9 million at December 31, 2013, and were above the actuarial mid-point of total estimated policy losses.

Table of Contents

**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.

| | 2013 | 2012 ($ in millions) | 2011 |
|---|---|---|---|
| Provisions Known Claims: | | | |
| Current year | 24.0 | 19.0 | 24.4 |
| Prior policy years | 83.2 | 107.8 | 100.8 |
| | 107.2 | 126.8 | 125.2 |
| Provisions IBNR | | | |
| Current year | 68.0 | 81.4 | 69.7 |
| Prior policy years | 14.3 | 39.6 | 48.0 |
| | 81.3 | 121.0 | 117.7 |
| Transferred to Known Claims | (83.2) | (107.8) | (100.8) |
| Total provisions | 106.3 | 140.0 | 142.1 |

Provisions for known claims arise primarily from prior policy years as claims are not typically reported until several years after policies are issued. Provisions IBNR are estimates of claims expected to be incurred over the next 20 years; therefore, it is not unusual or unexpected to experience adjustments to the provisions in both current and prior policy years as new loss development of policy years occurs. This loss development experience may result in changes to our estimate of total ultimate losses expected (IBNR). As claims become known, provisions are reclassified from IBNR to known claims. Adjustments relating to large losses may impact provisions for either known claims or IBNR.

Known claims provisions decreased for the year ended December 31, 2013 to $107.2 million from $126.8 million in 2012, primarily as a result of adjustments to existing claims filed on policies issued in previous years. Current year provisions IBNR are recorded on policies issued in the current year as a percentage of premiums realized (provisioning rate). For the year ended December 31, 2013, current year provisions IBNR decreased $13.4 million to $68.0 million compared to 2012 as a result of a reduction in our provisioning rate which was partially offset by a 3.8% increase in title revenues for the year ended December 31, 2013 compared to 2012. As a percentage of title operating revenues, provisions IBNR for the current policy year decreased from 4.7% in 2012 to 3.8% in 2013 due to the lowering of the provisioning rate effective for policies issued in the second quarter 2013 resulting from a decrease in incurred losses. Provisions IBNR relating to prior policy years decreased from $39.6 million in 2012 to $13.3 million in 2013 due to declining adverse development on large title losses relating to policies issued in prior years. This trend is indicative of lower incurred losses as the claims environment continues to improve and as claims have been closed in policy years with higher than normal claims.

In addition to title policy claims, we incur losses in our direct operations from escrow, closing and disbursement functions. These escrow losses typically relate to errors or other miscalculations of amounts to be paid at closing, including timing or amount of mortgage payoff, payment of property or other taxes and payment of homeowners association fees. Escrow losses are typically paid less than 12 months after the loss is discovered and have been immaterial for each of the three years ended December 31, 2013.

We consider our actual claims payment and incurred loss experience, including consideration of the frequency and severity of claims, compared to our actuarial estimates of claims payments and incurred losses in determining whether our overall loss experience has improved or worsened compared to prior period. We also consider the impact of economic or market factors on particular policy years to determine whether the results of those policy years are indicative of future expectations. In addition, we evaluate the frequency and severity of large losses in determining whether our experience has improved or worsened. The loss provision rate is applied to current premium revenues resulting in the title loss expense for the period. This loss provision rate is set to provide for losses on current year premiums and is determined using moving average ratios of recent actual policy loss payment experience (net of recoveries) to premium revenues.

14

Table of Contents

Provisions for title losses, as a percentage of title operating revenues, were 5.9%, 8.1% and 9.4% for the years ended December 31, 2013, 2012 and 2011, 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 $18.0 million for the year ended December 31, 2013.

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.

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 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.

**Table of Contents**

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, 2013 and 2012. 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.

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.

Table of Contents

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, 2013. There were no impairment charges for goodwill or material impairment charges for other long-lived assets during the three years ended December 31, 2013.

**Operations**. Our business has three 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; loan due diligence; compliance solutions; service performance management and technology to streamline the real estate process.

**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, including employment trends;

demand by buyers;

number of households;

premium rates;

market share;

Table of Contents

- 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, 2013, 2012 and 2011 follow (amounts shown for 2013 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.

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Mortgage interest rates (30-year, fixed-rate) % | | | |
| Averages for the year | 3.98 | 3.66 | 4.46 |
| First quarter | 3.50 | 3.92 | 4.85 |
| Second quarter | 3.69 | 3.80 | 4.66 |
| Third quarter | 4.44 | 3.55 | 4.31 |
| Fourth quarter | 4.30 | 3.36 | 4.01 |
| Mortgage originations $ billions | 1,817 | 2,153 | 1,496 |
| Refinancings % of originations | 62.1 | 71.5 | 65.7 |
| New home sales in millions | 0.43 | 0.37 | 0.30 |
| Existing home sales in millions | 4.48 | 4.13 | 3.79 |
| Existing home sales median sales price in $ thousands | 197.4 | 177.2 | 166.2 |

The real estate market experienced increasing home prices in 2013 and is expected to provide an increasing contribution to GDP in 2014 principally due to new homebuilding activity. Although mortgage rates have risen since the spring 2013, multiple housing indicators posted large increases at the end of 2013. Housing recovery in 2014 should continue to progress based on the strengthening of consumer confidence.

**Trends and order counts.** For the three years ended December 31, 2013, mortgage interest rates (30-year, fixed-rate) have fluctuated from a monthly high of 4.95% in February 2011 to a monthly low of 3.4% in November 2012. In 2013, total mortgage originations and refinancing mortgage originations decreased 15.6% and 26.7%, respectively. During 2013, sales of new homes and existing homes increased 16.3% and 8.6%, respectively. In 2012, sales of new homes and existing homes increased 19.9% and 9.2%, respectively.

Our direct order levels decreased from 2012 to 2013 and increased from 2011 to 2012. The decline in orders was primarily a result of fewer refinance orders in the second half of 2013.

Table of Contents

The number of direct title orders opened follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| | | (in thousands) | |
| First quarter | 105 | 103 | 84 |
| Second quarter | 116 | 111 | 91 |
| Third quarter | 95 | 112 | 101 |
| Fourth quarter | 76 | 104 | 90 |
| | 392 | 430 | 366 |

The number of direct title orders closed follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| | | (in thousands) | |
| First quarter | 73 | 71 | 62 |
| Second quarter | 85 | 79 | 67 |
| Third quarter | 76 | 81 | 69 |
| Fourth quarter | 62 | 85 | 73 |
| | 296 | 316 | 271 |

**RESULTS OF OPERATIONS**

A comparison of our results of operations for 2013 to 2012 and 2012 to 2011 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 $26.5 million, or 3.7%, in 2013 and increased $90.3 million, or 14.3%, in 2012. The largest revenue increases in 2013 were in Texas, Ohio, New York and Florida, partially offset by decreases in California and Canada. The largest revenue increases in 2012 were in Texas, Utah, Colorado and Washington, partially offset by decreases in Nevada and Georgia. Revenues from commercial and other large transactions increased $16.1 million to $137.5 million in 2013 and increased $8.5 million to $111.5 million in 2012.

Direct orders closed decreased 6.3%, while the average revenue per file closed (including large commercial policies) increased 10.2% in 2013 compared to 2012 due to an increase in commercial closings coupled with a decrease in residential refinancing closings in the same periods. Direct operating revenues, excluding large commercial policies, increased 1.2%, while the average revenue per closing increased 8.0% in 2013 compared to 2012. On average, refinance premium rates are 60% of the title premium revenue of a similarly priced sale transaction. In 2012, direct orders closed increased 16.7%, while the average revenue per file closed (including large commercial policies) decreased 2.4% 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 13.1%, while the average revenue per closing decreased 3.1% in 2012 compared to 2011.

Revenues from independent agencies increased $39.0 million, or 3.9%, in 2013 and $130.2 million, or 14.8%, in 2012, respectively. The largest increases in revenues from independent agencies in 2013 were in New York, Texas, Ohio and Minnesota, partially offset by decreases in California, Pennsylvania and New Jersey. 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. Revenues from independent agencies net of amounts retained by those agencies increased 11.0% in 2013 and 16.3% in 2012, respectively. Over the past year, the average annual per agency premium received increased 19.5%.

19

**Table of Contents**

The Texas Department of Insurance increased title insurance premium rates in the state of Texas by 3.8% effective May 1, 2013. The impact on our consolidated financial position and results of operations from this rate increase has been incrementally positive to second, third and fourth quarter revenues.

**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 | | |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2011 | 2013 | 2012 | 2011 |
| Texas | 328 | 292 | 242 | 18 | 17 | 16 |
| New York | 219 | 190 | 164 | 12 | 11 | 11 |
| California | 146 | 203 | 181 | 8 | 12 | 12 |
| International | 118 | 117 | 109 | 7 | 7 | 7 |
| Florida | 73 | 70 | 61 | 4 | 4 | 4 |
| All others | 912 | 859 | 753 | 51 | 49 | 50 |
| | 1,796 | 1,731 | 1,510 | 100 | 100 | 100 |

**Mortgage services revenues.** Mortgage services operating revenues decreased $41.0 million, or 25.9%, in 2013 and increased $51.4 million, or 48.2%, in 2012. The decline in revenues is largely due to the nature of the contracts in this segment, which currently are primarily project-based. This segment is transitioning from its historical service offerings for the management of defaulted and distressed loans to a more sustainable suite of service offerings to support the ongoing loan origination and servicing support needs of lenders in a heightened regulatory environment. Many lending institutions are facing the pressure of maintaining earnings while managing the rising costs of regulatory compliance, which we believe will drive increased demand for the outsourced solutions we offer. While we are focused on reducing expenses in the segment, we were unable to achieve efficiencies fast enough to offset the decline in revenues. We continue to execute on our longer-term strategy of providing mortgage process outsourcing services which are high-quality, flexible and responsive. New service capabilities within the broad category of servicing and origination support is a key component of our long term strategy, and will serve to deepen our relationship with mortgage lenders and counterbalance highly cyclical title revenues while expanding our margins. The increases in 2012 were primarily due to a significant rise in demand for our servicing support services, including loan modification services, relating primarily to distressed loans.

**Investment income.** Investment income increased $1.7 million, or 12.2%, and decreased $1.7 million, or 10.9%, in 2013 and 2012, respectively. The increase in 2013 was primarily due to increases in average balances invested. Certain investment gains and losses, which are included in our results of operations in investment and other (losses) gains net, were realized as part of the ongoing management of our investment portfolio for the purpose of improving performance. The decrease in 2012 was primarily due to decreases in average yield.

In 2013, investment and other (losses) gains net included a $5.4 million non-cash charge relating to the early retirement of $37.8 million of Convertible Senior Notes due October 2014 (Notes), a $1.5 million loss on the sale of an equity investment and $1.0 million loss for the impairment of cost-basis investments offset by realized gains of $2.7 million from the sale of debt and equity investments available-for-sale, $2.3 million gain on non-title-related insurance policy proceeds and $1.9 million from the sale of real estate.

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.

Table of Contents

**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 81.1%, 82.3% and 82.5% in the years 2013, 2012 and 2011, respectively. The decrease in the average retention percentage in 2013 and 2012 was due primarily to a shift in geographical revenue mix, as agency revenues in high retention states either declined or did not increase as fast as agency revenues in relatively lower retention states. 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 continue to improve 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 somewhat faster than the nation as a whole, which has resulted in our average retention percentage remaining in the 81% 82% 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.

**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 (%) | | |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2011 | 2013 | 2012 | 2011 |
| Title | 20.0 | 19.4 | 20.7 | 14.2 | 14.5 | 15.0 |
| Mortgage services | 81.2 | 62.1 | 60.9 | 5.1 | 7.7 | 7.3 |

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 $28.6 million, or 5.3%, in 2013 and $72.6 million, or 15.5%, in 2012. The number of persons we employed at December 31, 2013, 2012 and 2011 was approximately 6,600, 6,300 and 5,600, respectively.

In 2013, we increased our employee headcount company-wide by approximately 351, or 5.6%, including acquisitions. The increase in headcount other than relating to acquisitions was largely driven to handle increased business activity. In addition, employee costs were influenced by higher incentive compensation due to the improved operating results, partially offset by lower contract labor.

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.

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 our mortgage services segment, total employee costs as a percentage of operating revenue increased to 81.2% from 62.1% in 2012. Actual costs increased $2.4 million, or 2.2%, in 2013. The increase as a percentage of revenues is due to staff being retained while new contracts were solicited after existing contracts had expired. It is important to retain the knowledge base for servicing the new contracts. New contracts generally require several months to reach steady-state revenues and normalized margins. However, the ramp-up of revenues from new contracts is taking longer than expected, and therefore, headcount reductions targeted to reduce employee costs by approximately 7% of mortgage services employee costs on an annualized basis were begun in January 2014. These staff reductions will continue throughout the first quarter. In 2012, actual costs increased $35.6 million, or 49.5%, primarily due to increases in staffing requirements to support new contracts awarded in late 2011 and early 2012.

Table of Contents

**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 and professional fees, equipment rental, insurance, rent and other occupancy expenses, repairs and maintenance, technology costs, telephone and title plant expenses. 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 maintenance expenses. Costs that fluctuate independently of revenues include those for general supplies, litigation defense and settlement, business promotion and marketing, and travel.

In 2013, other operating expenses for the combined business segments decreased $6.2 million, or 2.2%. Costs fixed in nature increased $2.0 million, or 1.7%, in 2013, primarily due to increases in professional fees, insurance and technology costs partially offset by a decrease in audit costs. Costs that follow, to varying degrees, changes in transaction volumes and revenues decreased $4.0 million, or 3.7%, in 2013 primarily due to decreases in certain mortgage services expenses, outside search fees and bad debt expenses, partially offset by increases in premium taxes. Costs that fluctuate independently of revenues decreased $4.2 million, or 7.3%, in 2013 primarily due to decreases in litigation-related expenses, partially offset by increases in technology 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.

**Title losses.** Provisions for title losses, as a percentage of title operating revenues, were 5.9%, 8.1% and 9.4% in 2013, 2012 and 2011, respectively.

Our title policy loss development continued to improve during 2013, reflecting an ongoing decline in prior policy year loss experience on non-large title policies as well as our continued attention to prudent risk management and emphasis on the quality and profitability of our independent agency network. We recorded policy loss reserve reductions relating to non-large losses on prior policy years aggregating approximately $22.1 million for the year ended December 31, 2013. However, these reductions were largely offset by increases in reserves relating to new and existing large losses aggregating approximately $19.3 million for the year ended December 31, 2013. The overall effect of these adjustments was a reallocation of policy loss reserves from non-large claims to large claims. As a result of the improvement in policy loss development, we lowered our overall provisioning rate on non-large claims effective with policies issued in the second quarter 2013.

For the year ended December 31, 2013, title losses decreased 24.1% even though title operating revenues increased 3.8% when compared to the same period in 2012. The title loss ratio in any given quarter is significantly influenced by new large claims incurred as well as adjustments to reserves for existing large claims. We continue to manage and resolve large claims prudently and in keeping with our commitments to policyholders. Losses incurred on known claims for the year 2013 decreased 15.5% compared to the year 2012.

The year ended December 31, 2012 included charges of $17.8 million 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 increased 1.3% compared to the year 2011.

**Table of Contents**

The year ended December 31, 2011 included charges of $24.6 million resulting from large title claims relating to policies issued in prior years. These charges were partially offset by insurance recoveries of $2.4 million on previously recognized title losses. During the fourth quarter 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 the existing large claim inventory which will reduce future risk for the company.

Excluding the impact of the reserve reductions, large losses, and defalcations (net of recoveries), title losses as a percent of title operating revenues were 6.1%, 7.1% and 7.9% in 2013, 2012 and 2011, respectively.

**Income taxes.** Our effective tax rates were 31.1%, (37.3)% and 79.9% for 2013, 2012 and 2011, respectively, based on earnings before taxes and after deducting noncontrolling interests of $91.5 million, $79.5 million and $11.7 million in 2013, 2012 and 2011, respectively. In the fourth quarter 2013, we released $6.6 million of a deferred tax asset valuation allowance relating to foreign tax credit carryforwards that the Company believes will more-likely-than-not be utilized prior to expiration. As of December 31, 2013, our remaining deferred tax asset valuation allowance was $7.0 million, relating primarily to foreign tax credit carryforwards.

Our effective tax rate in 2012 was driven by the fourth quarter release of a deferred tax asset valuation allowance of $36.6 million that had been established against U.S. deferred tax assets. As of December 31, 2012, our deferred tax asset valuation allowance was $12.1 million, relating primarily to foreign tax credit carryforwards.

**Contractual obligations.** Our material contractual obligations at December 31, 2013 were:

| | Payments due by period ($ millions) | | | | |
|---|---|---|---|---|---|
| | Less than 1 year | 1-3 years | 3-5 years | More than 5 years | Total |
| Notes payable | 3.1 | 2.7 | | | 5.8 |
| Convertible senior notes | 27.1 | | | | 27.1 |
| Operating leases | 38.3 | 54.2 | 16.9 | 4.8 | 114.2 |
| Estimated title losses | 141.9 | 182.5 | 73.5 | 109.0 | 506.9 |
| | 210.5 | 239.4 | 90.4 | 113.8 | 654.1 |

Material contractual obligations consist primarily of the Notes, other notes payable, operating leases and estimated title losses. The timing for payments of notes payable is based upon contractually stated payment terms of each debt agreement. The Notes will mature in October 2014 unless converted into shares of Common Stock.

Operating leases are primarily for office space and expire over the next eight 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 $115.7 million, $124.0 million and $134.3 million in 2013, 2012 and 2011, respectively.

Table of Contents

## LIQUIDITY AND CAPITAL RESOURCES

Our liquidity and capital resources reflect our ability to generate cash flow to meet our obligations to shareholders, customers (payments to satisfy claims on title policies), vendors, employees, lenders and others. As of December 31, 2013, our cash and investments, including amounts reserved pursuant to statutory requirements, aggregated $770.0 million.

A substantial majority of our consolidated cash and investments as of December 31, 2013 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, provide funds to its subsidiaries (whose operations consist principally of field title offices and entities comprising the mortgage services segment) 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, 2013, the maximum dividend that could be paid in 2014 after such approval is $94.7 million. 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. Also, amounts less than the maximum are disclosed to and subject to review by the Texas Insurance Commissioner, who may raise an objection to a planned distribution. 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. Guaranty did not pay a dividend in 2013 or 2012.

Cash held at the parent company totaled $3.8 million at December 31, 2013. As noted above, as a holding company, the parent is funded principally by cash from its subsidiaries in the form of dividends, 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:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| | | ($ millions) | |
| Net cash provided by operating activities | 87.2 | 120.5 | 23.4 |
| Net cash used by investing activities | (78.4) | (36.5) | (29.2) |
| Net cash used by financing activities | (18.2) | (18.1) | (7.0) |

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.

Cash provided by operations in 2013 was $87.2 million, a decrease of $33.3 million from $120.5 million provided by operations in 2012. This decrease is primarily due to cash payments on outstanding accounts payable, payments on the losses in excess of provisions and accrued liabilities, partially offset by collections on outstanding receivable balances.

Table of Contents

Although our business is labor intensive, we are focused on a cost-effective, scalable business model which includes utilization of technology, centralization of back and middle office functions and business process outsourcing. Our approach allows us to adjust more easily to fluctuations in transaction volumes.

Cash payments on title claims in 2013, 2012 and 2011 were $115.7 million, $124.0 million and $134.3 million, respectively. Claim payments made, net of insurance recoveries, during 2013, 2012, and 2011 include $23.2 million, $28.8 million and $34.9 million, respectively, on large title claims. As these losses are paid and newly reported prior policy year claims continue 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 and invested in high-quality securities and short-term investments. As of December 31, 2013, cash and investments funding the statutory premium reserve aggregated $465.7 million and our statutory estimate of claims that may be reported in the future totaled $377.4 million. In addition to this, we had cash and investments (excluding equity method investments) of $205.6 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 $104.5 million, $181.9 million and $339.7 million in 2013, 2012 and 2011, respectively. We used cash for the purchases of investments in the amounts of $160.5 million, $207.7 million and $336.1 million in 2013, 2012 and 2011, respectively.

Capital expenditures were $17.3 million, $16.8 million, and $17.7 million in 2013, 2012, and 2011, respectively. We maintain investment in capital expenditures at a level that enables us to implement technologies for increasing our operational and back-office efficiencies. During the year ended 2013, we paid cash for acquisitions of $14.9 million, including the acquisition of certain assets of AllonHill, LLC. We sold equity investees and other assets of $3.1 million in 2013.

During the years ended 2013, 2012, and 2011, acquisitions resulted in additions to goodwill of $10.9 million, $4.2 million and $7.6 million, respectively.

Financing activities and capital resources

Total debt and stockholders equity were $32.9 million and $663.1 million, respectively, as of December 31, 2013. In 2013 and 2012, we repaid $12.2 million, (of which $10.1 million related to notes payable issued in 2013 for a qualified intermediary) and $5.7 million, respectively, of debt in accordance with the underlying terms of the debt instruments. Included in total debt are $27.1 million of Notes. In 2013, we exchanged an aggregate of $37.8 million of Notes for an aggregate of 3,094,440 shares of Common Stock plus cash for accrued and unpaid interest. We also have available a $25.0 million unsecured bank line of credit, which expires in June 2016, under which no borrowings were outstanding at December 31, 2013.

We paid $2.2 million, $1.8 million and $0.9 million, respectively, in cash dividends to our shareholders representing $0.10 per share of Common Stock outstanding in 2013 and 2012, and $0.05 per share of Common Stock outstanding in 2011. 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.

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 certain 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 a remaining interest in a subsidiary through the issuance of stock held in treasury.

Table of Contents

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 decrease in cash and cash equivalents of $4.9 million in 2013, a net increase of $1.8 million in 2012 and a net decrease of $0.8 million in 2011. Our principal foreign operating unit is in Canada, and, on average, the value of the Canadian dollar relative to the U.S. dollar decreased during 2013.

***********

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 and anticipated claims payments, we have no material contractual 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 $1.0 million and $0.8 million in 2013 and 2012, respectively, relating to impairment of cost-basis investments.

**Other comprehensive (loss) earnings.** 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 2013, net unrealized investment losses of $8.9 million, which increased our other comprehensive losses, were primarily related to temporary decreases in fair values of corporate, municipal and government bond investments, partially offset by temporary increases in fair values of equity securities and deferred taxes. Changes in foreign currency exchange rates, primarily related to our Canadian operations, increased other comprehensive loss by $6.8 million, net of taxes, in 2013.

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.

**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.

**Table of Contents**

**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, utility, 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 risk 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, 2013 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 | 45,430 | 45,467 |
| After one year through two years | 35,776 | 36,608 |
| After two years through three years | 24,711 | 25,838 |
| After three years through four years | 66,902 | 68,561 |
| After four years through five years | 73,804 | 74,873 |
| After five years | 264,768 | 265,301 |
| | 511,391 | 516,648 |

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 $133.8 million and $143.0 million as of December 31, 2013 and 2012, respectively. Also included in foreign debt securities are United Kingdom treasury bonds of $25.2 million and $22.4 million as of December 31, 2013 and 2012, respectively.

Based on our foreign debt securities portfolio and foreign currency exchange rates at December 31, 2013, a 100 basis-point increase (decrease) in foreign currency exchange rates would result in an increase (decrease) of approximately $1.6 million, or 1.0%, in the fair value of our foreign debt securities portfolio. We do not currently employ hedging strategies with respect to foreign currency risk as we do not consider this risk material to the Company. In addition, our international businesses conduct substantially all of their operations in their respective local currencies. Changes in foreign currency exchange 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.

Based on our debt securities portfolio and interest rates at December 31, 2013, a 100 basis-point increase (decrease) in interest rates would result in a decrease (increase) of approximately $21.8 million, or 4.2%, 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.

**Table of Contents**

**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-28, and such information is incorporated in this report by reference.

Table of Contents

**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, 2013, 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, 2013. 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 published in 1992. Based on this assessment, management believes that, as of December 31, 2013, 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, 2013 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.

Table of Contents

## PART III

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

Information regarding our directors and management team will be included in our proxy statement for our 2013 Annual Meeting of Stockholders (Proxy Statement), to be filed within 120 days after December 31, 2013, and is incorporated in this report by reference.

Our Board of Directors and Management Team as of February 28, 2014 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 |
| **Management Team:** | |
| 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.

### 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.

**Table of Contents**

**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.

Table of Contents

## 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: February 28, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on our behalf on February 28, 2014 by the following Directors:

| | | |
|---|---|---|
| /s/ Catherine A. Allen<br>(Catherine A. Allen) | /s/ Paul W. Hobby<br>(Paul W. Hobby) | /s/ Malcolm S. Morris<br>(Malcolm S. Morris) |
| /s/ Thomas G. Apel<br>(Thomas G. Apel) | /s/ E. Douglas Hodo<br>(E. Douglas Hodo) | /s/ Stewart Morris, Jr.<br>(Stewart Morris, Jr.) |
| /s/ Robert L. Clarke<br>(Robert L. Clarke) | /s/ Laurie C. Moore<br>(Laurie C. Moore) | /s/ W. Arthur Porter<br>(W. Arthur Porter) |

Table of Contents

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

**AND FINANCIAL STATEMENT SCHEDULES**

**Table of Contents**

## 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, 2013, 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, 2013, 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, 2013 and 2012, and the related consolidated statements of earnings and comprehensive earnings, and cash flows for each of the years in the three-year period ended December 31, 2013, and the financial statement schedules as listed in the accompanying index, and our report dated February 28, 2014 expressed an unqualified opinion on those consolidated financial statements.

*/s/* KPMG LLP

Houston, Texas

February 28, 2014

**Table of Contents**

## 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 ( the Company ) as of December 31, 2013 and 2012, and the related consolidated statements of earnings and comprehensive earnings, and cash flows for each of the years in the three-year period ended December 31, 2013. 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, 2013 and 2012, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2013, 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, 2013, 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 February 28, 2014 expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

*/s/* KPMG LLP

Houston, Texas

February 28, 2014

Table of Contents

**CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE EARNINGS**

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | ($000 omitted, except per share) | | |
| **Revenues** | | | |
| Title insurance: | | | |
| Direct operations | 750,031 | 723,537 | 633,213 |
| Agency operations | 1,046,378 | 1,007,380 | 877,225 |
| Mortgage services | 117,145 | 158,108 | 106,661 |
| Investment income | 15,492 | 13,809 | 15,505 |
| Investment and other (losses) gains net | (1,066) | 7,578 | 2,302 |
| | 1,927,980 | 1,910,412 | 1,634,906 |
| **Expenses** | | | |
| Amounts retained by agencies | 848,437 | 829,070 | 723,943 |
| Employee costs | 571,026 | 542,461 | 469,839 |
| Other operating expenses | 280,258 | 286,496 | 256,194 |
| Title losses and related claims | 106,318 | 140,029 | 142,101 |
| Depreciation and amortization | 17,920 | 17,783 | 19,542 |
| Interest | 2,956 | 5,235 | 5,268 |
| | 1,826,915 | 1,821,074 | 1,616,887 |
| Earnings before taxes and noncontrolling interests | 101,065 | 89,338 | 18,019 |
| Income tax expense (benefit) | 28,481 | (29,639) | 9,341 |
| Net earnings | 72,584 | 118,977 | 8,678 |
| Less net earnings attributable to noncontrolling interests | 9,558 | 9,795 | 6,330 |
| **Net earnings attributable to Stewart** | 63,026 | 109,182 | 2,348 |
| Net earnings | 72,584 | 118,977 | 8,678 |
| Other comprehensive (loss) earnings: | | | |
| Foreign currency translation | (10,349) | 3,880 | (2,241) |
| Change in unrealized (losses) gains on investments | (11,203) | 14,213 | 9,202 |
| Reclassification of adjustment for (losses) included in net earnings | (2,463) | (3,470) | (3,465) |
| Other comprehensive (loss) earnings, before taxes | (24,015) | 14,623 | 3,496 |
| Income tax (benefit) expense related to items of other comprehensive (loss) earnings | (8,313) | 4,721 | 425 |
| Other comprehensive (loss) earnings, net of taxes | (15,702) | 9,902 | 3,071 |
| Comprehensive earnings | 56,882 | 128,879 | 11,749 |
| Less comprehensive earnings attributable to noncontrolling interests | 9,558 | 9,795 | 6,330 |
| Comprehensive earnings attributable to Stewart | 47,324 | 119,084 | 5,419 |
| Basic average shares outstanding (000) | 22,096 | 19,294 | 19,131 |
| Basic earnings per share attributable to Stewart | 2.85 | 5.66 | 0.12 |
| Dilutive average shares outstanding (000) | 24,741 | 24,384 | 19,131 |
| Diluted earnings per share attributable to Stewart | 2.60 | 4.61 | 0.12 |

See notes to consolidated financial statements.

F-4

Table of Contents

## CONSOLIDATED BALANCE SHEETS

| | As of December 31, 2013 | 2012 |
|---|---|---|
| | ($000 omitted) | |
| **Assets** | | |
| Cash and cash equivalents | 194,289 | 208,538 |
| Short-term investments | 38,336 | 37,025 |
| Investments in debt and equity securities available-for-sale, at fair value: | | |
| Statutory reserve funds | 450,564 | 444,579 |
| Other | 86,779 | 58,680 |
| | 537,343 | 503,259 |
| Receivables: | | |
| Notes | 4,075 | 8,483 |
| Premiums from agencies | 45,249 | 45,458 |
| Income taxes | 9,477 | 3,259 |
| Other | 55,737 | 56,311 |
| Allowance for uncollectible amounts | (9,871) | (12,823) |
| | 104,667 | 100,688 |
| Property and equipment, at cost: | | |
| Land | 5,559 | 5,848 |
| Buildings | 26,779 | 26,887 |
| Furniture and equipment | 213,585 | 241,694 |
| Accumulated depreciation | (191,657) | (219,715) |
| | 54,266 | 54,714 |
| Title plants, at cost | 76,822 | 77,360 |
| Real estate, at lower of cost or net realizable value | 2,636 | 3,941 |
| Investments in investees, on an equity method basis | 9,892 | 13,891 |
| Goodwill | 231,838 | 220,955 |
| Intangible assets, net of amortization | 13,050 | 7,015 |
| Deferred tax asset | 144 | 7,562 |
| Other assets | 62,775 | 56,229 |
| | 1,326,058 | 1,291,177 |
| **Liabilities** | | |
| Notes payable | 5,827 | 6,481 |
| Convertible senior notes | 27,119 | 64,687 |
| Accounts payable and accrued liabilities | 119,961 | 116,617 |
| Estimated title losses | 506,888 | 520,375 |
| Deferred tax liabilities | 3,174 | 2,645 |
| | 662,969 | 710,805 |
| Contingent liabilities and commitments | | |
| **Stockholders equity** | | |
| Common Stock $1 par, authorized 50,000,000; issued 21,803,179 and 18,705,914; outstanding 21,451,018 and 18,353,753 | 21,803 | 18,706 |
| Class B Common Stock $1 par, authorized 1,500,000; issued and outstanding 1,050,012 | 1,050 | 1,050 |
| Additional paid-in capital | 171,915 | 133,685 |
| Retained earnings | 452,314 | 391,447 |
| Accumulated other comprehensive earnings: | | |
| Foreign currency translation adjustments | 5,350 | 12,169 |

| | | |
|---|---|---|
| Unrealized investment gains on investments | 5,532 | 14,415 |
| Treasury stock 352,161 and 352,161 common shares, at cost | (2,666) | (2,666) |
| Total stockholders equity attributable to Stewart | 655,298 | 568,806 |
| Noncontrolling interests | 7,791 | 11,566 |
| Total stockholders equity | | |