STEWART INFORMATION SERVICES CORP
Form 10-Q
November 02, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012

or

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

For the transition period from to

Commission file number 001-02658

STEWART INFORMATION SERVICES CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**74-1677330**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**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

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

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

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	x
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 Exchange Act). Yes ¨ No x

On October 29, 2012, the following shares of each of the issuer s classes of common stock were outstanding:

Common, $1 par value	18,302,893
Class B Common, $1 par value	1,050,012

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FORM 10-Q QUARTERLY REPORT

QUARTER ENDED SEPTEMBER 30, 2012

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

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS

	For the Three Months Ended September 30, 2012	For the Three Months Ended September 30, 2011	For the Nine Months Ended September 30, 2012	For the Nine Months Ended September 30, 2011
	($000 omitted, except per share)			
Revenues				
Title insurance:				
Direct operations	189,155	164,411	528,364	469,482
Agency operations	281,587	228,350	729,047	633,988
Real estate information	43,098	22,494	116,059	76,443
Investment income	3,669	4,287	10,204	12,029
Investment and other gains (losses) net	3,232	(1,013)	5,766	(2,115)
	520,741	418,529	1,389,440	1,189,827
Expenses				
Amounts retained by agencies	231,765	188,355	601,327	524,103
Employee costs	138,236	114,461	397,559	348,973
Other operating expenses	71,202	66,717	206,493	190,093
Title losses and related claims	34,541	35,200	104,041	101,384
Depreciation and amortization	4,336	4,751	13,423	14,343
Interest	1,297	1,356	3,947	3,928
	481,377	410,840	1,326,790	1,182,824
Earnings before taxes and noncontrolling interests	39,364	7,689	62,650	7,003
Income tax expense	2,268	1,381	8,266	2,570
Net earnings	37,096	6,308	54,384	4,433
Less net earnings attributable to noncontrolling interests	2,428	1,766	6,962	4,244
Net earnings attributable to Stewart	34,668	4,542	47,422	189
Other comprehensive earnings:				
Foreign currency translation	6,022	(6,816)	5,544	(3,547)
Change in unrealized gains	6,753	8,794	15,527	12,155
Reclassification of adjustment for gains included in net earnings	(1,274)	(236)	(2,820)	(1,980)
Other comprehensive earnings, before taxes	11,501	1,742	18,251	6,628
Income tax expense (benefit) related to items of other comprehensive earnings	3,739	(2,681)	6,031	214
Other comprehensive earnings, net of taxes	7,762	4,423	12,220	6,414
Comprehensive earnings attributable to Stewart	42,430	8,965	59,642	6,603
Basic average shares outstanding (000)	19,309	19,234	19,288	19,095
Basic earnings per share attributable to Stewart	1.80	0.24	2.46	0.01
Dilutive average shares outstanding (000)	24,399	24,344	24,378	19,095
Diluted earnings per share attributable to Stewart	1.45	0.22	2.04	0.01

See notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED BALANCE SHEETS

	As of September 30, 2012	As of December 31, 2011
	($000 omitted)	
Assets		
Cash and cash equivalents	162,797	117,196
Cash and cash equivalents statutory reserve funds	15,023	23,647
	177,820	140,843
Short-term investments	37,052	33,137
Investments in debt and equity securities available-for-sale, at fair value:		
Statutory reserve funds	428,182	397,074
Other	55,598	63,911
	483,780	460,985
Receivables:		
Notes	8,681	10,394
Premiums from agencies	45,462	47,351
Income taxes	9,721	7,412
Trade and other receivables	55,076	39,660
Allowance for uncollectible amounts	(13,308)	(16,056)
	105,632	88,761
Property and equipment, at cost		
Land	5,848	6,429
Buildings	26,841	23,823
Furniture and equipment	239,117	234,262
Accumulated depreciation	(216,586)	(208,077)
	55,220	56,437
Title plants, at cost	77,947	77,406
Real estate, at lower of cost or net realizable value	4,284	5,236
Investments in investees, on an equity method basis	14,113	18,055
Goodwill	216,744	214,492
Intangible assets, net of amortization	7,400	8,693
Other assets	57,866	52,096
	1,237,858	1,156,141
Liabilities		
Notes payable	6,490	11,722
Convertible senior notes	64,644	64,513
Accounts payable and accrued liabilities	89,753	86,389
Estimated title losses	516,315	502,611
Deferred income taxes	35,977	27,449
	713,179	692,684
Contingent liabilities and commitments		
Stockholders equity		
Common and Class B Common Stock and additional paid-in capital	152,900	152,102
Retained earnings	331,519	284,097

Accumulated other comprehensive earnings	28,901	16,681
Treasury stock 352,161 common shares, at cost	(2,666)	(2,666)
Stockholders equity attributable to Stewart	510,654	450,214
Noncontrolling interests	14,025	13,243
Total stockholders equity (19,352,905 and 19,303,844 shares outstanding)	524,679	463,457
	1,237,858	1,156,141

See notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Nine Months Ended September 30,	
	2012	2011
	($000 omitted)	
Reconciliation of net earnings to cash provided (used) by operating activities:		
Net earnings	54,384	4,433
Add (deduct):		
Depreciation and amortization	13,423	14,343
Provision for bad debt	3,010	1,250
Investment and other (gains) losses net	(5,766)	2,115
Payments for title losses less than (in excess of) provisions	10,731	(6,501)
Insurance recoveries of title losses	214	3,210
Increase in receivables net	(21,261)	(6,626)
Increase in other assets net	(4,409)	(566)
Increase (decrease) in payables and accrued liabilities net	2,923	(15,622)
Increase (decrease) in net deferred income taxes	2,525	(2,869)
Net earnings from equity investees	(3,264)	(1,043)
Dividends received from equity investees	2,709	1,889
Other net	1,611	1,052
Cash provided (used) by operating activities	56,830	(4,935)
Investing activities:		
Proceeds from investments available-for-sale matured and sold	134,534	172,783
Purchases of investments available-for-sale	(138,656)	(170,017)
Purchases of property and equipment and title plants net	(14,104)	(13,788)
Proceeds from the sale of land, buildings, and furniture and equipment	4,991	
Increases in notes receivable	(213)	(324)
Collections on notes receivable	663	650
Net cash received (paid) for other assets, cost-basis investments, equity investees and other	2,277	(77)
Cash paid for acquisitions of subsidiaries and other net	(78)	(8,262)
Cash paid for loan guarantee obligation		(3,928)
Cash used by investing activities	(10,586)	(22,963)
Financing activities:		
Payments on notes payable	(5,235)	(4,688)
Proceeds from notes payable	2	6,500
Purchase of remaining interest of consolidated subsidiary	(43)	
Distributions to noncontrolling interests	(6,348)	(4,457)
Contributions from noncontrolling interests	87	13
Cash used by financing activities	(11,537)	(2,632)
Effects of changes in foreign currency exchange rates	2,270	(794)
Increase (decrease) in cash and cash equivalents	36,977	(31,324)
Cash and cash equivalents at beginning of period	140,843	154,490
Cash and cash equivalents at end of period	177,820	123,166
Supplemental information:		
Settlement of wage and hour litigation through issuance of Common Stock		7,582

Settlement of note payable through issuance of Common Stock held in treasury		1,299
Receipt of partial building ownership in exchange for debt forgiveness	1,255	
Changes in financial statement amounts due to the acquisition of subsidiaries:		
Goodwill	2,692	9,416
Receivables		5,060
Other	(2,057)	809
Liabilities	(557)	(3,773)
Debt assumed		(3,250)
Cash paid for acquisitions of subsidiaries and other net	78	8,262

See notes to condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Interim financial statements

NOTE 1

Interim financial statements. The financial information contained in this report for the three and nine months ended September 30, 2012 and 2011, and as of September 30, 2012, is unaudited. This report should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2011.

A. Management s responsibility. The accompanying interim financial statements were prepared by management, who is responsible for their integrity and objectivity. These financial statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP), including management s best judgments and estimates. In the opinion of management, all adjustments necessary for a fair presentation of this information for all interim periods, consisting only of normal recurring accruals, have been made. The Company s results of operations for interim periods are not necessarily indicative of results for a full year and actual results could differ from those estimates.

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

C. Reclassifications. Certain amounts in the 2011 interim financial statements have been reclassified for comparative purposes. Net earnings attributable to Stewart, as previously reported, were not affected.

Investments in debt and equity securities

NOTE 2

Investments in debt and equity securities. The amortized costs and fair values follow:

	September 30, 2012		December 31, 2011	
	Amortized costs	Fair values	Amortized costs	Fair values
	($000 omitted)			
Debt securities:				
Municipal	16,903	17,892	26,721	27,801
Corporate and utilities	246,332	265,255	237,912	244,123
Foreign	169,834	171,026	162,384	164,268
U.S. Government	17,224	18,750	17,530	19,350
Equity securities	9,348	10,857	5,005	5,443
	459,641	483,780	449,552	460,985

Gross unrealized gains and losses were:

	September 30, 2012		December 31, 2011	
	Gains	Losses	Gains	Losses
	($000 omitted)			
Debt securities:				
Municipal	998	9	1,080	
Corporate and utilities	18,924	1	9,184	2,973
Foreign	1,494	302	1,937	53
U.S. Government	1,526		1,820	
Equity securities	1,779	270	442	4
	24,721	582	14,463	3,030

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Debt securities as of September 30, 2012 mature, according to their contractual terms, as follows (actual maturities may differ due to call or prepayment rights):

	Amortized costs	Fair values
	($000 omitted)	
In one year or less	11,763	11,881
After one year through five years	223,740	228,916
After five years through ten years	188,765	203,619
After ten years	26,025	28,507
	450,293	472,923

As of September 30, 2012, gross unrealized losses on investments and the fair values of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were:

	Less than 12 months		More than 12 months		Total	
	Losses	Fair values	Losses	Fair values	Losses	Fair values
			($000 omitted)			
Debt securities:						
Municipal	9	697			9	697
Corporate and utilities	1	653			1	653
Foreign	302	74,338			302	74,338
U.S. Government						
Equity securities	245	1,783	25	1,106	270	2,889
	557	77,471	25	1,106	582	78,577

The number of investments in an unrealized loss position as of September 30, 2012 was 15. Since the Company does not intend to sell and will more-likely-than-not maintain each debt security until its anticipated recovery, and no significant credit risk is deemed to exist, these investments are not considered other-than-temporarily impaired.

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

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

The Company believes its investment portfolio is diversified and expects no material loss to result from the failure to perform by issuers of the debt securities it holds. Investments made by the Company are not collateralized. Foreign debt securities primarily include Canadian government bonds and United Kingdom treasury bonds.

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Fair value measurements

NOTE 3

Fair value measurements. The Fair Value Measurements and Disclosures Topic of the Financial Accounting Standards Board (FASB) ASC defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal, or most advantageous, market for the asset or liability in an orderly transaction between market participants at the measurement date. The Fair Value Measurements and Disclosures Topic establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs when possible. The three levels of inputs used to measure fair value are as follows:

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

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

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

As of September 30, 2012, financial instruments measured at fair value on a recurring basis are summarized below:

	Level 1	Level 2 ($000 omitted)	Fair value measurements
Short-term investments	37,052		37,052
Investments available-for-sale:			
Debt securities:			
Municipal		17,892	17,892
Corporate and utilities		265,255	265,255
Foreign	171,026		171,026
U.S. Government	18,750		18,750
Equity securities	10,857		10,857
	237,685	283,147	520,832

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

	Level 1	Level 2 ($000 omitted)	Fair value measurements
Short-term investments	33,137		33,137
Investments available-for-sale:			
Debt securities:			

Municipal		27,801	27,801
Corporate and utilities		244,123	244,123
Foreign	164,268		164,268
U.S. Government	19,350		19,350
Equity securities	5,443		5,443
	222,198	271,924	494,122

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As of September 30, 2012, Level 1 financial instruments consist of short-term investments, U.S. and foreign government bonds, and equity securities. Level 2 financial instruments consist of municipal, corporate and utilities bonds. In accordance with the Company s policies and guidelines, the Company s third party, registered investment manager invests only in securities rated as investment grade or higher by the major rating services, where observable valuation inputs are significant. All municipal bonds are valued using a third-party pricing service, and the corporate bonds are valued using the market approach, which includes three to ten inputs from relevant market sources, including Financial Industry Regulatory Authority s (FINRA) Trade Reporting and Compliance Engine (TRACE) and independent broker/dealer quotes, bids and offerings, as well as other relevant market data, such as securities with similar characteristics (i.e. sector, rating, maturity, etc.). Broker/dealer quotes, bids and offerings mentioned above are gathered (typically three to ten) and a consensus risk premium spread (credit spread) over risk-free Treasury yields is developed from the inputs obtained, which is then used to calculate the resulting fair value.

Investment income

NOTE 4

Investment income. Gross realized investment and other gains and losses follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
	($000 omitted)			
Realized gains	3,658	884	7,008	4,476
Realized losses	(426)	(1,897)	(1,242)	(6,591)
	3,232	(1,013)	5,766	(2,115)

Expenses assignable to investment income were insignificant. There were no significant investments as of September 30, 2012 that did not produce income during the year.

Proceeds from the sales of investments available-for-sale follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
	($000 omitted)			
Proceeds from sales of investments available-for-sale	22,027	15,406	90,705	126,165

For the nine months ended September 30, 2012, investment and other gains (losses) net included realized gains of $3.9 million from the sale of debt and equity investments available-for-sale and $2.2 million from the sale of property.

For the nine months ended September 30, 2011, investment and other (losses) gains net included realized losses on the impairment of cost-basis investments of $1.2 million and a loan guarantee obligation of $3.9 million. The realized losses were partially offset by realized gains of $3.1 million from the sale of debt investments available-for-sale.

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Share-based incentives

NOTE 5

Share-based incentives. In March 2011, the Company granted 51,000 shares of fully vested, unrestricted Common Stock with a fair value of $0.6 million, which was recorded as compensation expense. During the same period, the Company also granted 37,000 shares of restricted Common Stock with a fair value of $0.4 million. The restricted Common Stock awards will vest at 20% over five years beginning in March 2011. Compensation expense associated with restricted stock awards will be recognized over this vesting period.

Earnings per share

NOTE 6

Earnings per share. The Company s basic earnings per share attributable to Stewart was calculated by dividing net earnings attributable to Stewart by the weighted-average number of shares of Common Stock and Class B Common Stock outstanding during the reporting periods.

To calculate diluted earnings per share, net earnings and number of shares are adjusted for the effects of any dilutive shares. Using the if-converted method, net earnings is adjusted for interest expense, net of any tax effects, applicable to the Convertible Senior Notes. The number of shares is adjusted by adding the number of dilutive shares, assuming they are issued, during the same reporting period. The treasury stock method is used to calculate the dilutive number of shares related to the Company s stock option plan.

For the three and nine months ended September 30, 2012 and 2011, the Company did not have any dilutive shares under the treasury stock method mentioned above since the exercise prices of the options were greater than the weighted-average market value of the shares, which excludes them from the diluted earnings calculation.

For the nine months ended September 30, 2011, the Company did not present diluted earnings per share using the if-converted method mentioned above since the add back of the tax affected interest expense on the convertible debt resulted in antidilution.

The calculation of the diluted earnings per share using the if-converted method is as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
	($000 omitted)			
Numerator:				
Net earnings attributable to Stewart	34,668	4,542	47,422	189
Interest expense, net of tax effects	785	785	2,354	
If-converted net earnings attributable to Stewart	35,453	5,327	49,776	189
Denominator (000):				
Basic average shares outstanding	19,309	19,234	19,288	19,095
Dilutive average number of shares relating to convertible senior notes	5,047	5,047	5,047	
Dilutive average number of shares relating to restricted shares grant	43	63	43	
Dilutive average shares outstanding	24,399	24,344	24,378	19,095
Diluted earnings per share attributable to Stewart	1.45	0.22	2.04	0.01

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Contingent liabilities and commitments

NOTE 7

Contingent liabilities and commitments. In the ordinary course of business, the Company guarantees the third-party indebtedness of certain of its consolidated subsidiaries. As of September 30, 2012, the maximum potential future payments on the guarantees are not more than the related notes payable recorded in the consolidated balance sheets. The Company also guarantees the indebtedness related to lease obligations of certain of its consolidated subsidiaries. The maximum future obligations arising from these lease-related guarantees are not more than the Company s future minimum lease payments. As of September 30, 2012, the Company had guarantees of indebtedness owed by certain third parties related to business expansion and unused letters of credit aggregating to $4.1 million, primarily related to workers compensation coverage.

Segment information

NOTE 8

Segment information. The Company s two reportable segments are title insurance-related services (Title), which includes all corporate-level costs, including interest related to convertible senior notes, and real estate information (REI). Selected statement of operations information related to these segments follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
	($000 omitted)			
Revenues:				
Title	477,643	396,035	1,273,381	1,113,384
REI	43,098	22,494	116,059	76,443
	520,741	418,529	1,389,440	1,189,827
Intersegment revenues:				
Title	(5)	62	23	165
REI	922	971	2,675	2,322
	917	1,033	2,698	2,487
Depreciation and amortization:				
Title	3,544	4,339	10,839	12,583
REI	792	412	2,584	1,760
	4,336	4,751	13,423	14,343
Earnings (loss) before taxes and noncontrolling interests:				
Title	24,971	147	25,891	(27,482)
REI	14,393	7,542	36,759	34,485
	39,364	7,689	62,650	7,003

Selected balance sheet information as of September 30 and December 31, respectively, related to these segments follows:

	2012	2011
	($000 omitted)	
Identifiable assets:		
Title	1,144,842	1,090,419
REI	93,016	65,722
	1,237,858	1,156,141

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Revenues generated in the United States and all international operations follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
	($000 omitted)			
United States	486,265	385,980	1,299,110	1,105,140
International	34,476	32,549	90,330	84,687
	520,741	418,529	1,389,440	1,189,827

Regulatory and legal developments

NOTE 9

Regulatory and legal developments. Stewart Title Guaranty Company (STGC) and Stewart Title Guaranty de Mexico, S.A. de C.V. (STGM) were defendants in a lawsuit in the State District Court of Harris County, Texas, Citigroup Global Markets Realty Corp. v. Stewart Title Guaranty Company. The lawsuit was filed in 2008 and concerns 16 owners and 16 lenders title insurance policies on 16 parcels of land in Mexico issued by STGM and reinsurance agreements by STGC. Citigroup Global Markets Realty Corp. asserted claims against STGC under reinsurance of the lenders policies as well as extra-contractual claims under Texas law. K.R. Playa VI, S de R.L. de C.V., the owner of the parcels, asserted claims against STGC and separate claims against STGM under the owners policies as well as extra-contractual claims under Texas law. The State District Court dismissed the extra-contractual claims against STGC and STGM based on application of Mexican law.

The jury returned a verdict of no damages, favorable to STGC and STGM, on April 29, 2011. Judgment was entered on June 30, 2011. Both Citigroup Global Markets Realty Corp. and K.R. Playa VI, S de R.L. de C.V. subsequently filed motions for new trial and motions for judgment notwithstanding the verdict, which the State District Court denied by orders dated September 12, 2011. Citigroup Global Markets Realty Corp. and K.R. Playa VI, S de R.L. de C.V. filed notices of appeal on September 28, 2011. The Company does not believe that the ultimate outcome will materially affect its consolidated financial condition or results of operations.

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In January 2009, an action was filed by individuals against STGC, Stewart Title of California, Inc., Cuesta Title Company and others in the Superior Court of California for the County of San Luis Obispo alleging that the plaintiffs have suffered damages relating to loans they made through Hurst Financial Corporation to an individual named Kelly Gearhart and entities controlled by Gearhart. Thereafter, several other lawsuits making similar allegations, including a lawsuit filed by several hundred individuals, were filed in San Luis Obispo Superior Court, and one such lawsuit was removed to the United States District Court for the Central District of California. The defendants vary from case to case, but Stewart Information Services Corporation, Stewart Title Company and Stewart Title Insurance Company have also each been sued in at least one of the cases. Each of the complaints alleges some combination of the following purported causes of action: breach of contract, negligence, fraud, aiding and abetting fraud, constructive fraud, breach of fiduciary duty, breach of implied covenant of good faith and fair dealing, financial elder abuse, violation of California Business and Professions Code Section 17200, negligent misrepresentation, conversion, conspiracy, alter ego and declaratory relief. The San Luis Obispo Superior Court has sustained demurrers by the Company with regard to certain causes of action and certain individuals and entities and dismissed Stewart Information Services Corporation from one case without leave to amend. Plaintiffs in one case have dismissed Stewart Title Insurance Company following the Court s sustaining of Stewart Title Insurance Company s demurrer. On the other hand, the Court has overruled the demurrers as to some causes of action. The United States District Court for the Central District of California granted the Company s motion to dismiss the First Amended Complaint as to the claim for violation of the Racketeer Influenced and Corrupt Organizations Act, with prejudice, and remanded the remainder of the case to the San Luis Obispo Superior Court. The Company filed a motion to coordinate the cases for pretrial purposes, and the Court issued (i) an order assigning all the cases to a single judge, (ii) an Order Coordinating Related Cases for Pre-Trial Purposes, and (iii) a First Case Management Order for the Related Cases. Discovery is ongoing. The Company has filed a motion for summary judgment and summary adjudication seeking the dismissal of certain plaintiffs claims. That motion was heard on October 25, 2012 and the parties are awaiting decision by the Court. On September 19, 2012, the Court set a target trial date of May 13, 2013, to which the Company has objected, to try an as-yet-undetermined portion of Plaintiffs actions. The Court has not entered a scheduling order leading up to a trial starting on that date but has scheduled a case management conference for November 5, 2012. Although the Company cannot predict the outcome of these actions, it is vigorously defending itself against the allegations and does not believe that the ultimate outcome will materially affect its consolidated financial condition or results of operations.

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In February 2008, an antitrust class action was filed in the United States District Court for the Eastern District of New York against Stewart Title Insurance Company, Monroe Title Insurance Corporation, Stewart Information Services Corporation, several other unaffiliated title insurance companies and the Title Insurance Rate Service Association, Inc. (TIRSA). The complaint alleges that the defendants violated Section 1 of the Sherman Antitrust Act by collectively filing proposed rates for title insurance in New York through TIRSA, a state-authorized and licensed rate service organization.

Complaints were subsequently filed in the United States District Courts for the Eastern and Southern Districts of New York and in the United States District Courts in Pennsylvania, New Jersey, Ohio, Florida, Massachusetts, Arkansas, California, Washington, West Virginia, Texas and Delaware. All of the complaints make similar class action allegations, except that certain of the complaints also allege violations of the Real Estate Settlement Procedures Act (RESPA) and various state antitrust and consumer protection laws. The complaints generally request treble damages in unspecified amounts, declaratory and injunctive relief and attorneys' fees. To date, 78 such complaints have been filed, each of which names the Company and/or one or more of its affiliates as a defendant (and have been consolidated in the aforementioned states), of which seven have been voluntarily dismissed.

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As of July 25, 2012, the Company has obtained dismissals of the claims in Arkansas, California, Delaware, Florida, Massachusetts, New Jersey, New York, Ohio, Pennsylvania (where the court dismissed the damages claims and granted defendants summary judgment on the injunctive claims), Texas and Washington. The Company filed a motion to dismiss in West Virginia (where all proceedings have been stayed and the docket closed). The dismissals in New York and Texas have been affirmed by the United States Courts of Appeals for the Second and Fifth Circuits, respectively, and on October 4, 2010, the United States Supreme Court denied the plaintiffs petitions for review of those decisions. The United States Court of Appeals for Sixth Circuit has affirmed the dismissal of the Ohio complaints, the Court of Appeals for the Third Circuit has affirmed the dismissals of