

STEWART INFORMATION SERVICES CORP

Form 10-Q

May 01, 2014

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended March 31, 2014**

**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)**

<p><b>Delaware</b>  <b>(State or other jurisdiction of</b>    <b>incorporation or organization)</b></p> <p><b>1980 Post Oak Blvd., Houston TX</b>  <b>(Address of principal executive offices)</b></p> <p><b>Registrant's telephone number, including area code: (713) 625-8100</b></p>	<p><b>74-1677330</b>  <b>(I.R.S. Employer</b>    <b>Identification No.)</b></p> <p><b>77056</b>  <b>(Zip Code)</b></p>
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**(Former name, former address and former fiscal year, if changed since last report)**

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer 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 <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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

On April 29, 2014, the following shares of each of the issuer's classes of stock were outstanding:

Common, \$1 par value	21,466,917
Class B Common, \$1 par value	1,050,012



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**FORM 10-Q QUARTERLY REPORT**

**QUARTER ENDED MARCH 31, 2014**

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

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

	For the Three Months Ended March 31,	
	2014	2013
	(\$000 omitted, except per share)	
<b>Revenues</b>		
Title insurance:		
Direct operations	149,689	159,646
Agency operations	213,673	227,662
Mortgage services	24,078	36,070
Investment income	3,858	3,643
Investment and other gains (losses) net	140	(3,307)
	391,438	423,714
<b>Expenses</b>		
Amounts retained by agencies	174,679	187,065
Employee costs	139,784	136,830
Other operating expenses	67,737	63,797
Title losses and related claims	22,767	23,563
Depreciation and amortization	4,395	4,358
Interest	662	954
	410,024	416,567
(Loss) earnings before taxes and noncontrolling interests	(18,586)	7,147
Income tax (benefit) expense	(7,958)	2,389
Net (loss) earnings	(10,628)	4,758
Less net earnings attributable to noncontrolling interests	1,478	1,551
<b>Net (loss) earnings attributable to Stewart</b>	<b>(12,106)</b>	<b>3,207</b>
Net (loss) earnings	(10,628)	4,758
Other comprehensive earnings (loss):		
Foreign currency translation	(4,140)	(4,246)
Change in unrealized gains on investments	6,402	1,634
Reclassification of adjustment for gains included in net earnings	(202)	(392)
Other comprehensive earnings (loss), before taxes	2,060	(3,004)
Income tax expense (benefit) related to items of other comprehensive earnings (loss)	438	(559)
Other comprehensive earnings (loss), net of taxes	1,622	(2,445)

Comprehensive (loss) earnings	(9,006)	2,313
Less comprehensive earnings attributable to noncontrolling interests	1,478	1,551
Comprehensive (loss) earnings attributable to Stewart	(10,484)	762
Basic and diluted average shares outstanding (000)	22,506	20,958
Basic and diluted (loss) earnings per share attributable to Stewart	(0.54)	0.15

See notes to condensed consolidated financial statements.

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

	As of March 31, 2014	As of December 31, 2013
	(\$000 omitted)	
<b>Assets</b>		
Cash and cash equivalents	120,342	194,289
Short-term investments	34,719	38,336
Investments in debt and equity securities available-for-sale, at fair value:		
Statutory reserve funds	454,206	450,564
Other	104,361	86,779
	558,567	537,343
Receivables:		
Notes	4,044	4,075
Premiums from agencies	42,499	45,249
Income taxes	11,735	9,477
Other	55,609	55,737
Allowance for uncollectible amounts	(9,197)	(9,871)
	104,690	104,667
Property and equipment, at cost		
Land	5,559	5,559
Buildings	26,837	26,779
Furniture and equipment	210,684	213,585
Accumulated depreciation	(189,804)	(191,657)
	53,276	54,266
Title plants, at cost	76,822	76,822
Real estate, at lower of cost or net realizable value	2,361	2,636
Investments in investees, on an equity method basis	9,667	9,892
Goodwill	231,838	231,838
Intangible assets, net of amortization	12,296	13,050
Deferred tax asset	4,112	144
Other assets	67,929	62,775
	1,276,619	1,326,058
<b>Liabilities</b>		
Notes payable	4,315	5,827
Convertible senior notes	27,141	27,119
Accounts payable and accrued liabilities	96,120	119,961
Estimated title losses	495,250	506,888

Deferred tax liabilities	1,243	3,174
	624,069	662,969
Contingent liabilities and commitments		
<b>Stockholders' equity</b>		
Common and Class B Common Stock and additional paid-in capital	195,108	194,768
Retained earnings	440,208	452,314
Accumulated other comprehensive earnings:		
Foreign currency translation adjustments	2,942	5,350
Unrealized investment gains on investments	9,562	5,532
Treasury stock 352,161 common shares, at cost	(2,666)	(2,666)
Stockholders' equity attributable to Stewart	645,154	655,298
Noncontrolling interests	7,396	7,791
Total stockholders' equity (22,516,819 and 22,501,030 shares outstanding)	652,550	663,089
	1,276,619	1,326,058

See notes to condensed consolidated financial statements.



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

	For the Three Months Ended March 31,	
	2014	2013
	(\$000 omitted)	
<b>Reconciliation of net (loss) earnings to cash used by operating activities:</b>		
Net (loss) earnings	(10,628)	4,758
Add (deduct):		
Depreciation and amortization	4,395	4,358
Provision for bad debt	(182)	1,091
Investment and other (gains) losses net	(140)	3,307
Payments for title losses in excess of provisions	(7,344)	(10,119)
Insurance recoveries of title losses	2,707	
(Increase) decrease in receivables net	(5,255)	13,425
Increase in other assets net	(3,983)	(845)
Decrease in payables and accrued liabilities net	(23,556)	(20,690)
(Decrease) increase in net deferred income taxes	(6,338)	1,276
Net earnings from equity investees	(359)	(1,475)
Dividends received from equity investees	584	1,557
Other net	(90)	(33)
<b>Cash used by operating activities</b>	<b>(50,189)</b>	<b>(3,390)</b>
<b>Investing activities:</b>		
Proceeds from investments available-for-sale matured and sold	65,793	15,255
Purchases of investments available-for-sale	(79,008)	(36,279)
Purchases of property and equipment, title plants and real estate net	(4,283)	(4,259)
Cash paid for acquisitions of subsidiaries and other net		(296)
Other net	305	340
<b>Cash used by investing activities</b>	<b>(17,193)</b>	<b>(25,239)</b>
<b>Financing activities:</b>		
Payments on notes payable	(1,512)	(455)
Proceeds from notes payable		400
Purchase of remaining interest of consolidated subsidiaries		(723)
Distributions to noncontrolling interests	(1,478)	(2,226)
Cash payments for settlement of debt		(742)
<b>Cash used by financing activities</b>	<b>(2,990)</b>	<b>(3,746)</b>
Effects of changes in foreign currency exchange rates	(3,575)	(787)
<b>Decrease in cash and cash equivalents</b>	<b>(73,947)</b>	<b>(33,162)</b>
Cash and cash equivalents at beginning of period	194,289	208,538

<b>Cash and cash equivalents at end of period</b>	120,342	175,376
<b>Supplemental information:</b>		
Retirement of Convertible Senior Notes with issuance of Common Stock		37,095
<b>Changes in financial statement amounts due to the acquisition of subsidiaries:</b>		
Goodwill acquired		28
Receivables and other assets acquired		(44)
Liabilities acquired		312
Cash paid for acquisitions of subsidiaries and other net		296
See notes to condensed consolidated financial statements.		

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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1**

**Interim financial statements.** The financial information contained in this report for the three months ended March 31, 2014 and 2013 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, 2013.

**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 2013 interim financial statements have been reclassified for comparative purposes. Net (loss) earnings attributable to Stewart, as previously reported, were not affected.

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

	March 31, 2014		December 31, 2013	
	Amortized costs	Fair values	Amortized costs	Fair values
	(\$000 omitted)			
<b>Debt securities:</b>				
Municipal	58,110	58,111	47,808	47,252
Corporate	292,770	302,852	285,104	291,832
Foreign	161,203	161,192	164,146	162,367
U.S. Government	14,332	15,112	14,334	15,197
Equity securities	17,441	21,300	17,441	20,695
	543,856	558,567	528,833	537,343

Foreign debt securities consist primarily of Canadian government bonds, Canadian corporate bonds and United Kingdom treasury bonds. Equity securities consist of common stocks.

Gross unrealized gains and losses were:

	March 31, 2014		December 31, 2013	
	Gains	Losses	Gains	Losses
	(\$000 omitted)			
<b>Debt securities:</b>				
Municipal	561	560	258	813
Corporate	11,770	1,688	9,955	3,228
Foreign	862	873	363	2,142
U.S. Government	832			