STEWART INFORMATION SERVICES CORP
Form 10-K
February 27, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 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)

Delaware (State or other jurisdiction of incorporation or organization)	74-1677330 (I.R.S. Employer Identification No.)
1980 Post Oak Blvd., Houston TX (Address of principal executive offices)	77056 (Zip Code)

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

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

Common Stock, $1 par value (Title of each class of stock)	New York Stock Exchange (Name of each exchange on which registered)

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No 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, 2014) held by non-affiliates of the Registrant was approximately $661,042,000.
At February 24, 2015, the following shares of each of the registrant's classes of stock were outstanding:

Common, $1 par value	22,933,287
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.

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FORM 10-K ANNUAL REPORT
YEAR ENDED DECEMBER 31, 2014
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As used in this report, "we," "us," "our," the "Company" and "Stewart" mean Stewart Information Services Corporation and ou subsidiaries, unless the context indicates otherwise.

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PART I

Item 1. Business

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

Stewart Information Services Corporation (NYSE-STC) is a customer-focused, global title insurance and real estate services company offering products and services through our direct operations, network of approved agencies and other companies within the Stewart family of companies. Stewart provides these services to homebuyers and sellers; residential and commercial real estate professionals; mortgage lenders and servicers; title agencies and real estate attorneys; home builders; and United States and county governments. Stewart also provides loan origination and servicing support; loan review services; loss mitigation; REO asset management; collateral valuations; due diligence for capital markets; home and personal insurance services; tax-deferred exchanges; and technology to streamline the real estate process. Stewart offers personalized service, industry expertise and customized solutions for virtually any type of real estate transaction, and is the preferred real estate services provider.

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, Latin America and Australia.

We report our business in three segments: title insurance and related services, mortgage services and corporate. The financial information related to these segments is discussed in Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 19 to our audited consolidated financial statements.

Title Insurance Services

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

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

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

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

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.

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.

See “Critical Accounting Estimates - Title Loss Reserves” for information on current year policy losses and balance sheet reserves.

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 second and third 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 (2014 figures are preliminary and subject to revision):

	2014	2013	2012
New home sales – in millions	0.44	0.43	0.37
Existing home sales – in millions	4.34	4.48	4.13
Existing home sales – median sales price in $ thousands	209.0	197.4	177.2

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

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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, "A-" by A. M. Best and "A-" by Kroll Bond Rating Agency.

Market share. Title insurance statistics are compiled quarterly by the title industry's national trade association. Based on 2014 unconsolidated statutory net premiums written through September 30, 2014, 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.

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

	Amounts ($ millions)			Percentages		
	2014	2013	2012	2014	2013	2012
Texas	338	328	292	20	18	17
New York	238	219	190	14	12	11
California	123	146	203	7	8	12
International	118	118	117	7	7	7
Florida	73	73	70	4	4	4
All others	824	926	874	48	51	49
	1,714	1,810	1,746	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. (See Item 1A, Risk Factors - Our Insurance Subsidiaries Must Comply With Extensive Government Regulations.)

Mortgage Services

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

SLS offers services for the entire lifecycle of the mortgage process including mortgage origination support, servicing support, default and REO services and loan review and audit services. These services include a full suite of valuation, title and closing services, post-closing outsourcing, loan review and audit, component servicing, military servicing support, portfolio reviews and audits, loan file reviews, loan quality control 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 collaboration, eSign and document management tools in SureClose™.

Stewart Government Services provides automation of county recorder offices and other county services.

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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 (new or refinancing), foreclosures or other distressed property activity. Revenues related to some 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, accurate and compliant services are critical to our customers since these factors directly affect the service they provide to their customers. Financial strength, scale, compliance activities, marketplace presence and reputation as a reliable, compliant solution are important factors in attracting new business.

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

Investment Policies. Our investment portfolios reside in two domestic and two international regulated subsidiary underwriters. These underwriters maintain investments in accordance with certain statutory requirements for the funding of statutory premium reserves and deposits. The activities of the portfolios are overseen by investment committees comprised of certain senior executives. Their oversight includes such activities as policy setting, determining appropriate asset classes with different and distinct risk/return profiles so as to prudently diversify the portfolio, and to approve all service vendors (managers and custodians). Our investment policies are designed to comply with regulatory requirements as applicable law imposes certain restrictions upon the types and amounts of investments that may be made by the regulated insurance subsidiaries.

Our investment policies further provide that investments are to be managed with a view to balancing earnings, liquidity, and risk (interest rate risk, credit risk and liquidity risk) while mindful of impacting earnings per share and income taxes.

As of December 31, 2014, our debt and equity investment portfolios together consisted of approximately 95% of fixed income securities. As of that date, approximately 83% of the fixed income investments are held in securities that are A-rated or higher, and 100% of the fixed income portfolios are rated investment grade or higher. Percentages are based on the market value of the securities. Credit ratings are based on Standard & Poor’s Rating Services and Moody’s Investor Services, Inc. published ratings. If a security was rated differently by both ratings agencies, the lower of the two ratings was selected.

In addition to our debt and equity investment securities portfolios, we maintain certain money-market and other short-term investments

Trademarks. We have developed and acquired 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+™, DataQuick Lending Solutions®, E-Title®, PropertyInfo®, SureClose®, TitleSearch®, eClosingRoom™ and Virtual Underwriter®. We consider these trademarks, which are perpetual in duration, to be important to our business.

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Employees. As of December 31, 2014, we employed approximately 7,400 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/investor).

CEO and CFO Certifications. The CEO and CFO certifications required under Section 302 of the Sarbanes-Oxley Act are filed as exhibits to our 2014 Form 10-K. Stewart Information Services Corporation submitted a Section 12(a) CEO Certification to the New York Stock Exchange in 2014.

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Item 1A. Risk Factors

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

Adverse changes in economic conditions, including 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 due to the cyclical nature of the housing industry and we expect them to fluctuate in the future.

The demand for our title insurance-related and mortgage services offerings is dependent primarily 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 may in the future be adversely affected by a 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.

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Availability of credit may reduce our liquidity and negatively impact our ability to fund operating losses or initiatives.
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 than 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, "A-" by A. M. Best and "A-" 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 a material adverse impact on our consolidated financial condition or 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 agency, 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 of 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.

The forthcoming implementation of CFPB’s TILA-RESPA Integrated Disclosure Rule for mortgage loan applications commencing on or after August 1, 2015 will impose new requirements for us and other mortgage industry participants regarding required mortgage disclosures and forms. Additionally, compliance with the integrated disclosure rule will alter related business processes and interactions with customers.
Governmental authorities regulate our insurance subsidiaries in the various states and international jurisdictions in which we do business. These regulations generally are intended for the protection of policyholders rather than stockholders. The nature and extent of these regulations vary from jurisdiction to jurisdiction, but typically involve:

- approving or setting of insurance premium rates;
- standards of solvency and minimum amounts of statutory capital and surplus that must be maintained;
- limitations on types and amounts of investments;
- establishing reserves, including statutory premium reserves, for losses and loss adjustment expenses;
- regulating underwriting and marketing practices;
- regulating dividend payments and other transactions among affiliates;
- prior approval for the acquisition and control of an insurance company or of any company controlling an insurance company;
- licensing of insurers, agencies and, in certain states, escrow officers;
- regulation of reinsurance;
- restrictions on the size of risks that may be insured by a single company;

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- 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 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.

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.

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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.

Our operations are reliant on technology. These systems could be a potential target for a cyber 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. Although we maintain cyber liability insurance to protect us financially, there is no assurance that the instances noted above 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 results of operations.

Unfavorable economic or other business conditions could cause us to record an impairment of all or a portion of our goodwill and other intangible assets.

We annually perform an impairment test of the carrying value of goodwill and other indefinite-lived intangible assets in the third quarter using June 30 balances. But an evaluation may be made whenever events may indicate an impairment. In assessing whether an impairment has occurred, we consider whether the performance of our reporting units may be below projections, unexpected declines in our market capitalization, negative macroeconomic trends or negative industry and company-specific trends. If we conclude that the carrying values of these assets exceed the fair value, we may be required to record an impairment of these assets. We have recorded $278.2 million of goodwill and other intangible assets as of December 31, 2014, and any substantial impairment that may be required could have a material adverse effect on our results of operations or financial condition.

Failures at financial institutions at which we deposit funds could adversely affect us.

We deposit substantial operating and fiduciary funds, which are third-party funds, in many financial institutions in excess of insured deposit limits. In the event that one or more of these financial institutions fail, there is no guarantee that we could recover the deposited funds, and, as such, we could be held liable for the funds owned by third parties. Under these circumstances, our liability could have a material adverse effect on our results of operations or financial condition.

Our investment portfolio is subject to interest rate and other risks and could experience losses.

We maintain a substantial investment portfolio, primarily consisting of fixed income debt securities and, to a lesser extent, equity securities. Our portfolio holdings are subject to certain economic and financial market risks, including credit and interest rate risk and/or liquidity risk. Instability in credit markets and economic conditions can increase the risk of loss in our portfolio. Periodically, we measure the fair value of the investments against the carrying value. If the carrying value of the investments exceeds the fair value, and we conclude the decline is other-than-temporary, we are required to record an impairment of the investments. The impairment could have a material adverse effect on our results of operations or financial condition.

Our acquisitions may have an adverse effect on our business

We periodically make acquisitions that we believe will further our ability to meet strategic goals. If we are not able to integrate the acquired business operations or technologies into our existing businesses, we may not realize expected synergies, contributions of the acquired businesses to our operating results or expected return on investment. In addition, our management may be required to spend significant time integrating the acquisitions, instead of managing existing businesses or focusing on strategic goals. Other factors such as the ability to retain key employees and customers, unanticipated liabilities or regulatory matters may keep us from achieving the desired results of the acquisitions. Any of these acquisition-related issues could have a material adverse effect on our results of operations or financial position.

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Item 1B. Unresolved Staff Comments
None.
Item 2. Properties
We lease under a non-cancelable operating lease expiring in 2019 approximately 249,000 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 570 additional locations for title office operations, production, administrative and technology centers. These additional locations include significant leased facilities in Austin, Denver, Wilmington, Toronto, Dallas and San Antonio.
Our leases expire from 2015 through 2024 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 $42.6 million in 2014.
We also own office buildings in Arizona, Texas, New York and Colorado. 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 18 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, 2014.

Item 4. Mine Safety Disclosures
None.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer 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
2014:		
First quarter	$37.55	$30.45
Second quarter	35.79	29.91
Third quarter	32.89	29.15
Fourth quarter	37.87	27.02
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

As of February 25, 2015, the number of stockholders of record was approximately 6,159 and the price of one share of our Common Stock was $36.80.
The Board of Directors declared an annual cash dividend of $0.10 per share payable December 29, 2014 and December 27, 2013, respectively, to Common stockholders of record on December 12, 2014 and December 9, 2013. Our certificate of incorporation provides that no cash dividends may be paid on our Class B Common Stock. On February 25, 2015, we announced that the board of directors approved an increase of our dividend payable to

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common shareholders from $0.10 per share annually to $1.00 per share to be paid quarterly at a rate of $0.25 per share beginning in the second quarter 2015.

We had a book value per share of $29.18 and $29.47 at December 31, 2014 and 2013, respectively. As of December 31, 2014, book value per share was based on approximately $700.5 million in stockholders' equity and 24,005,760 shares of Common Stock and Class B Common Stock outstanding. 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.

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, 2014. The graph assumes that the value of the investment in our Common Stock and each index was $100 at December 31, 2009 and that all dividends were reinvested.

	2009	2010	2011	2012	2013	2014
Stewart	100.00	102.66	103.28	233.39	290.57	334.43
Russell 2000 Index	100.00	126.85	121.56	141.37	196.27	205.87
Russell 2000 Financial Services Sector Index	100.00	120.37	116.89	142.20	186.85	203.40

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 Exchange Act, as amended, except to the extent that the Company specifically incorporates it by reference into such filing.

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The following is a summary of the repurchases of our Common Stock during the year ended December 31, 2014:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Amount Remaining Under the Plan (1)
May 2014	96,042	$30.45	96,042	$67,075,793
August 2014	264,154	$31.38	264,154	$58,787,267
September 2014	158,169	$32.08	158,169	$53,712,940
October 2004	27,915	$32.98	27,915	$52,792,304
November 2014	35,000	$34.49	35,000	$51,585,059
December 2014	103,965	$34.94	103,965	$47,952,167
	685,245		685,245	

(1) In February 2014, we announced a stock repurchase program that is expected to return approximately $70.0 million to stockholders through the end of 2015.

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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.

	2014	2013	2012	2011	2010
	($ millions, except share and per share data)				
Total revenues	1,870.8	1,928.0	1,910.4	1,634.9	1,672.4
Title operating revenues	1,714.4	1,810.0	1,745.5	1,521.0	1,555.9
Mortgage services revenues	132.9	103.5	143.5	96.1	76.3
Investment income	16.8	15.5	13.8	15.5	18.4
Investment gains (losses)	6.7	(1.1)	7.6	2.3	21.8
Title loss provisions	81.3	106.3	140.0	142.1	148.4
% title operating revenues	4.7	5.9	8.1	9.4	9.6
Pretax earnings[1]	51.8	101.1	89.3	18.0	2.9
Net earnings (loss) attributable to Stewart	29.8	63.0	109.2	2.3	(12.6)
Cash provided by operations	53.3	87.2	120.5	23.4	41.2
Total assets	1,392.5	1,326.1	1,291.2	1,156.1	1,141.2
Long-term debt	60.2	2.7	71.2	76.2	71.2
Stockholders' equity	700.5	663.1	580.4	463.5	448.3
Per share data:					
Average shares – dilutive (millions)	24.7	24.7	24.4	19.1	18.3
Basic earnings (loss) attributable to Stewart	1.31	2.85	5.66	0.12	(0.69)
Diluted earnings (loss) attributable to Stewart	1.24	2.60	4.61	0.12	(0.69)
Cash dividends	0.10	0.10	0.10	0.05	0.05
Stockholders' equity	29.18	29.47	29.91	24.01	24.40
Market price:					
High	37.87	34.39	28.35	12.74	14.93
Low	27.02	22.74	11.54	8.13	7.80
Year end	37.04	32.27	26.00	11.55	11.53

[1] Pretax figures are before noncontrolling interests.

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

MANAGEMENT'S OVERVIEW

For the year ended December 31, 2014, net earnings attributable to Stewart were $29.8 million, or $1.24 per diluted share, compared to $63.0 million, or $2.60 per diluted share, for the same period in 2013. Pretax earnings for the year ended December 31, 2014 were $51.8 million, compared to pretax earnings of $101.1 million for the same period in 2013. Results for the year ended December 31, 2014 include an aggregate of $19.2 million for litigation-related matters, approximately $15.8 million related to costs incurred for a shareholder settlement, including related advisory expenses, acquisition integration, projects related to the cost management program and $2.7 million of impairment charges. Partially offsetting these charges was a credit relating to a recovery of a portion of a large title loss and realized gains of $9.1 million.

Total revenues for 2014 were $1,870.8 million, a decrease of $57.2 million, or 3.0%, from $1,928.0 million for the 2013 year, due principally to fewer transactions closed resulting from a decline in overall housing industry activity, partially offset by the impact of acquisitions.

Our title segment revenues for the fourth quarter 2014 were $449.3 million, an increase of 6.3% from the fourth quarter 2013 and an increase sequentially of 2.0% from the third quarter 2014. In the fourth quarter 2014, the title segment generated pretax earnings of $45.6 million (10.2% margin), as compared with fourth quarter 2013's pretax earnings of $48.8 million (11.5% margin) and third quarter 2014 pretax earnings of $74.9 million (17.0% margin). Title segment results for the third quarter 2014 include the aforementioned title loss recovery. Our direct operations include local offices, commercial and international operations. We generate commercial revenues both domestically and internationally. U.S. and Canadian commercial revenues increased 12.9% from the fourth quarter 2013 to $47.8 million, and 15.9% sequentially from the third quarter 2014. For the year ended December 31, 2014, commercial revenues increased 13.4%. During 2014, we refined our systems for tracking international revenue and beginning fourth quarter 2014, we reported on commercial revenues generated outside of the United States and Canada, which include Europe, Australia, the Caribbean, and Latin America. Commercial revenues from those areas were $2.8 million for the fourth quarter 2014, and $14.8 million for the full year. For the fourth quarter, total international revenues were $28.3 million, up 1.3% from $27.9 million in the fourth quarter 2013. For the year, total international revenues were $116.6 million, up 3.4% from $112.8 million in 2013.

Revenues from our mortgage services segment increased to $70.1 million for the fourth quarter 2014, from $22.8 million in the fourth quarter 2013, largely due to acquisitions of Wetzel Trott, Inc., the title and collateral valuation business of DataQuick Lending Solutions; and LandSafe Title, all of which closed in the second and third quarters 2014. Revenues also increased as the result of new contracts which began contributing meaningful revenue during the second quarter and a net realized gain of $7.4 million. As a result, the segment reported pretax earnings of $7.4 million in the fourth quarter 2014 compared to a pretax loss of $3.7 million and pretax earnings of $3.3 million for the fourth quarter 2013 and third quarter 2014, respectively.

Our 2014 financial results reflect the continuing implementation of both our strategic plan and our value-creation strategies which were announced early in 2014. We are making significant progress in the transformation of our mortgage services operations with the acquisitions completed in the second and third quarters 2014. Our title operations performed solidly in a generally lackluster housing environment, and title losses were within their historic range, although quarter to quarter volatility remains.

We remain committed to our stated goal of achieving a minimum of $25.0 million of annualized structural cost savings exclusive of market conditions by the end of 2015. Activity around the cost management program intensified during the quarter in accordance with the underlying project plans. Although this level of work and related expenses will continue through 2015, we have already achieved approximately $10.0 million of annualized savings.

During the fourth quarter 2014, we acquired approximately 0.2 million shares of our Common Stock for an aggregate purchase price of $5.8 million pursuant to the previously announced $70 million stock repurchase program and, since the inception of the program, have acquired 0.7 million shares for an aggregate purchase price of $22.0 million.

The Consumer Financial Protection Bureau’s mortgage disclosure rules become effective August 1, 2015. While we and the entire industry are working diligently to provide the necessary changes in technology, processes and training, there is a potential industry-wide slowdown in transactions in the third quarter 2015 as the industry works

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through the implementation of these rules. We have a significant team dedicated to technology and process changes as well as training to implement the mortgage disclosure rules.

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.

Provisions for title losses, as a percentage of title operating revenues, were 4.7%, 5.9% and 8.1% for the years ended December 31, 2014, 2013 and 2012, respectively. We recorded an increase related to large claims of $6.9 million in the fourth quarter of 2014 due to new large claims and adjustments to existing large claims and we recorded a policy loss reserve reduction in the third quarter of 2014 relating to a partial recovery on a large claim recorded in prior years. Actual loss payment experience, including the impact of large losses, is the primary reason for increases or decreases in our loss provision. A change of 100 basis points in this percentage, a reasonably likely scenario based on our historical loss experience, would have increased or decreased our provision for title losses and pretax operating results approximately $17.1 million for the year ended December 31, 2014.

	2014	2013	2012
	($ in millions)		
Provisions – Known Claims:			
Current year	18.4	24.0	19.0
Prior policy years-bulk reserves	—	10.7	10.7
Prior policy years	48.3	72.5	97.1
	66.7	107.2	126.8
Provisions – IBNR			
Current year	46.2	68.0	81.4
Prior policy years-bulk reserves	10.7	—	—
Prior policy years	6.0	14.3	39.6
	62.9	82.3	121.0
Transferred IBNR to Known Claims	(48.3)	(83.2)	(107.8)
Total provisions	81.3	106.3	140.0

Provisions for known claims arise primarily from prior policy years as claims are not typically reported until several years after policies are issued. Provisions - Incurred But Not Reported (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 experience may result in changes to our estimate of total ultimate losses expected (i.e., the IBNR policy loss reserve). 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 for IBNR.

Known claims provisions decreased for the year ended December 31, 2014 to $66.7 million from $107.2 million in 2013, primarily as a result of adjustments to existing claims on policies issued in previous years and a reclassification of $10.7 million of bulk reserves to an IBNR provision for prior policy 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, 2014, current year provisions - IBNR decreased $21.8 million to $46.2 million compared to 2013. As a percentage of title operating revenues, provisions - IBNR for the current policy year decreased from 3.8% in 2013 to 2.7% in 2014 due to a decrease in the incurred losses resulting from the lowering of the provisioning rate effective for policies issued in the first quarter 2014. This trend is indicative of lower incurred losses as the claims environment has continued to improve. Provisions - IBNR relating to prior policy years slightly increased due to the reclassification of bulk reserves from the known claims provision as well as the adverse development relating to certain older policy years with higher than normal claims.

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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 a mortgage payoff, payment of property or other taxes and payment of homeowners' association fees. Escrow losses also arise in cases of mortgage fraud, and in those cases the title insurer incurs the loss under its obligation to ensure that an unencumbered title is conveyed. Escrow losses are recognized as expense when discovered and are typically paid less than 12 months after the loss is discovered. For the years ended December 31, 2014 and 2013, we accrued approximately $4.5 million and $7.6 million, respectively, for policy loss reserves relating to legacy escrow losses arising principally from mortgage fraud.

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

At each quarter end, our recorded reserve for title losses begins with the prior period's reserve balance for claim losses, adds the current period provision to that balance and subtracts actual paid claims, resulting in an amount that our management compares to its actuarially-based calculation of the ending reserve balance necessary to provide for future title losses. The actuarially-based calculation is a paid loss experience calculation where loss experience 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 not at the actuary's point estimate but is within a reasonable range (+/- 4.0%) of our actuarially-based reserve calculation and the actuary's 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.

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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, 2014 and 2013. 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 indicate a potential impairment. This evaluation is based on a combination of a discounted cash flow analysis (DCF) and market approaches that incorporate market multiples of comparable companies and our own market capitalization. The DCF model utilizes historical and projected operating results and cash flows, initially driven by estimates of changes in future revenue levels, and risk-adjusted discount rates. Our projected operating results are primarily driven by anticipated mortgage originations, which we obtain from projections by industry experts. Fluctuations in revenues, followed by our ability to appropriately adjust our employee count and other operating expenses, or large and unanticipated adjustments to title loss reserves, are the primary reasons for increases or decreases in our projected operating results. Our market-based valuation methodologies utilize (i) market multiples of earnings and/or other operating metrics of comparable companies and (ii) our market capitalization and a control premium based on market data and factors specific to our ownership and corporate governance structure (such as our Class B Common Stock). To the extent that our future operating results are below our projections, or in the event of adverse market conditions, an interim review for impairment may be required, which may result in an impairment of goodwill.

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

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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.

Goodwill is not amortized, but is reviewed annually and upon the occurrence of an event indicating impairment may have occurred. If determined to be impaired, the impaired portion is expensed to current operations. The process of determining impairment relies on projections of future cash flows, operating results and market conditions. Uncertainties exist in these projections and are subject to changes relating to factors such as interest rates and overall real estate market conditions. As part of this 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 the reporting unit fails the qualitative assessment, then we would obtain input from third-party appraisers regarding the fair value of its 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 2014 goodwill impairment test for each of our reporting units, except for mortgage services for which we performed a quantitative assessment utilizing our third-party appraiser to determine the fair value of the reporting unit. Based on our analysis, we determined it was not likely that the fair value of the reporting units was less than their carrying amounts as of June 30, 2014. There were no impairment charges for goodwill during the three years ended December 31, 2014. We recorded a $1.6 million impairment of an intangible asset in 2014.

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, agencies and centralized title services centers. We also provide loan origination and servicing support; loan review services; real estate valuation 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;
- independent agent remittance rates;
- opening of new offices and acquisitions;
- number of commercial transactions, which typically yield higher premiums;
- government or regulatory initiatives, including tax incentives;

- acquisitions or divestitures of businesses; and
- seasonality and/or weather.

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Premiums are determined in part by the values of the transactions we handle. To the extent inflation or market conditions cause increases in the prices of homes and other real estate, premium revenues are also increased. Conversely, falling home prices cause premium revenues to decline. As an overall guideline, a 5% increase in home prices results in an approximate 3.6% increase in title premiums. Home price changes may override the seasonal nature of the title insurance business. Historically, our first quarter is the least active in terms of title insurance revenues as home buying is generally depressed during winter months. Our second and third quarters are the most active as the summer is the traditional home buying season, and while commercial transaction closings are skewed to the end of the year, individually large commercial transactions can occur any time of year.

Industry data. Published mortgage interest rates and other selected residential data for the years ended December 31, 2014, 2013 and 2012 follow (amounts shown for 2014 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.

	2014	2013	2012
Mortgage interest rates (30-year, fixed-rate) – %			
Averages for the year	4.17	3.98	3.66
First quarter	4.36	3.50	3.92
Second quarter	4.23	3.69	3.80
Third quarter	4.14	4.44	3.55
Fourth quarter	3.97	4.30	3.36
Mortgage originations – $ billions	1,167	1,866	2,154
Refinancings – % of originations	43.4	60.2	71.5
New home sales – in millions	0.44	0.43	0.37
Existing home sales – in millions	4.34	4.48	4.13
Existing home sales – median sales price in $ thousands	209.0	197.4	177.2

The real estate market experienced increasing home prices in 2014 and is expected to see some continued improvement in 2015. Mortgage rates remain historically low and lending standards continue to become less stringent. Fannie Mae is forecasting a 5.8% increase in total home sales for 2015, most of which is likely to come from growth in existing home sales. It is expected the rising share of new home sales will lead to a healthy increase in single-family construction of about 19%, or 765,000 units.

Trends and order counts. For the three years ended December 31, 2014, mortgage interest rates (30-year, fixed-rate) have fluctuated from a monthly low of 3.4% in November 2012 to a monthly high of 4.49% in September 2013. In 2014, total mortgage originations and refinancing mortgage originations decreased 37.5% and 54.9%, respectively, from 2013. During 2014, sales of new homes and existing homes increased 1.4% and decreased 3.1%, respectively, from 2013. In 2013, sales of new homes and existing homes increased 16.3% and 8.6%, respectively, from 2012.

For 2014, we are reporting open and closed order information, based on more detailed reporting information that became available beginning in the fourth quarter 2014, but due to system constraints, we are unable to provide comparable data for 2013 and 2012. The new reporting is more comprehensive than in prior quarters, as it now includes orders through our centralized title operations.

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The number of direct title orders opened follows:

	2014	2013	2012
	(in thousands)		
First quarter	86	105	103
Second quarter	104	116	111
Third quarter	126	95	112
Fourth quarter	111	76	104
	427	392	430

The number of direct title orders closed follows:

	2014	2013	2012
	(in thousands)		
First quarter	55	73	71
Second quarter	72	85	79
Third quarter	85	76	81
Fourth quarter	84	62	85
	296	296	316

RESULTS OF OPERATIONS

A comparison of our results of operations for 2014 to 2013 and 2013 to 2012 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. Our employee costs and certain other operating expenses are sensitive to inflation.

Title revenues. Revenues from direct title operations increased $44.7 million, or 5.9%, and $25.5 million, or 3.5%, in 2014 and 2013, respectively. Revenues in 2014 increased primarily due to the title-related component of the acquisitions closed in the second quarter 2014 and a continued shift in mix to more residential resale and commercial orders, partially offset by declining refinance transaction volume. International revenues (including foreign-sourced commercial revenues of $13.2 million) increased $3.8 million, or 3.4%, and decreased $1.7 million, or 1.5%, respectively, in 2014 compared to 2013 and in 2013 compared to 2012. Revenues from U.S. and Canadian commercial and other large transactions increased $18.4 million, or 13.4%, and increased $16.1 million, or 13.3%, respectively, in 2014 compared to 2013 and in 2013 compared to 2012. While year-to-year results for commercial business can fluctuate considerably due to timing of when large transactions close, our commercial operation continued to improve its position in the marketplace.

Revenues from independent agencies decreased $140.3 million, or 13.4%, in 2014 and increased $39.0 million, or 3.9%, in 2013 compared to 2012. Revenues from independent agencies fluctuate based on the same general factors that influence revenues from direct title operations. Although we do not specifically know our agents’ order composition, we believe the proportion of their orders from refinancing transactions was higher than previously thought and higher than in our direct operations. Therefore, the decline in independent agency revenue relative to direct revenue is largely due to this higher proportion of refinancing transactions than in our direct operations, and, in 2014, the contribution of the acquisitions to our direct offices as well as agency revenue that is now recorded as direct revenue due to those acquisitions. Consistent with our strategy for this channel, our focus is on increasing profit margins in every state, increasing premium revenue in states where remittance rates are above 20%, and maintaining the quality of our agency network, which we believe to be the industry’s best, in order to mitigate claims risk and drive consistent future performance. While market share is important in our agency operations channel, it is not as important as margins, remittance rates and risk mitigation.

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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		
	2014	2013	2012	2014	2013	2012
Texas	338	328	292	20	18	17
New York	238	219	190	14	12	11
California	123	146	203	7	8	12
International	118	118	117	7	7	7
Florida	73	73	70	4	4	4
All others	824	926	874	48	51	49
	1,714	1,810	1,746	100	100	100

Mortgage services revenues. Mortgage services operating revenues increased $29.4 million, or 28.4%, in 2014 and decreased $40.1 million, or 27.9%, in 2013. The increase in revenues in 2014 is largely due to the acquisitions closed in the second and third quarters of 2014 as well as the stabilization of the legacy mortgage services business. The decline in 2013 was largely due to the nature of the contracts, which were primarily project-based. Mortgage services segment revenues increased $72.1 million, or 59.1%, in 2014 and decreased $36.7 million, or 23.1% in 2013. Revenues from the acquisitions pertaining to centralized title operations are included in the mortgage services segment revenues in accordance with applicable segment accounting rules.

During 2014, we completed acquisitions of three companies that provide collateral valuation, settlement services, title and closing services and loan quality control and due diligence services. These acquisitions expand our offerings to mortgage lenders and progress continues on integrating these acquisitions. The original synergy estimate of approximately $5.0 million of future annualized savings has been achieved. We will continue to optimize these businesses with those of the legacy Stewart Lender Services businesses, as well as the broader Stewart organization, and we expect improving margins in 2015 in this segment.

With the acquisitions completed during 2014, we are making significant progress towards achieving the transformation of this segment from its historical service offerings for the management of defaulted and distressed loans to a more sustainable suite of service offerings that support the ongoing loan origination and servicing support needs of lenders. We will, however, maintain our default services expertise so that this segment will have products that move in concert with traditional mortgage origination cycles and products that will provide revenue in down markets.

Investment income. Investment income increased $1.3 million, or 8.5%, and $1.7 million, or 12.2%, in 2014 and 2013, respectively. The increase in 2014 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 gains (losses) - net, were realized as part of the ongoing management of our investment portfolio for the purpose of improving performance. The increase in 2013 was primarily due to increases in average balances invested.

In 2014, investment and other gains (losses) - net included realized gains of $5.6 million from the reduction in the fair value of a contingent consideration liability, $3.8 million from the sale of a business and $1.1 million from the sale of debt and equity investments available-for-sale, partially offset by charges of $1.9 million relating to office closure costs, $1.6 million relating to the impairment of an intangible asset and $1.0 million relating to the impairment of a cost-basis investment.

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 6% Convertible Senior (Notes), a $1.5 million loss on the sale of an equity investment and $1.0 million 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 from non-title-related insurance policy proceeds and $1.9

million from the sale of real estate.

In 2012, investment and other gains (losses) - net included realized gains of $8.0 million from the sale of debt and equity 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.

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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 81.5%, 81.1% and 82.3% in the years 2014, 2013 and 2012, respectively. The average retention percentage may vary from year-to-year due to the geographical mix of agency operations, the volume of title revenues and, in some states, laws or regulations. Due to the variety of such laws or regulations, as well as competitive factors, the average retention rate can differ significantly from state to state. In addition, a high proportion of our independent agencies are in states with retention rates greater than 80%, and so we expect our average retention percentage to remain in the 81%-82% range over the near to medium term.

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 (%)		
	2014	2013	2012	2014	2013	2012
Title	23.9	21.6	19.4	15.4	13.1	14.5
Mortgage services	63.5	65.0	62.3	30.3	19.5	7.7

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

Employee costs. Including the impact of acquisitions, employee costs for the combined business segments increased $53.3 million, or 9.3%, in 2014 and $28.6 million, or 5.3%, in 2013. Excluding the impacts of acquisitions and integration-related severance costs, employee costs for the combined business segments decreased 1.3% from 2013. Our total employee count at December 31, 2014, 2013 and 2012 were approximately 7,400, 6,600 and 6,300, respectively.

In 2014, total employee count increased by approximately 770 employees, or 11.7%, including acquisitions. We experienced an increase of approximately 890 employees due to the recent acquisitions and 370 employees related to a new service offering and contract, partially offset by subsequent reductions of approximately 120 employees at these acquired operations and reductions of approximately 370 employees at existing operations. In 2014, total mortgage services employee count increased by approximately 800 employees, with an increase of approximately 780 employees due to the recent acquisitions and 370 employees related to a new service offering and contract, partially offset by subsequent reductions of approximately 80 employees at these acquired operations and reductions of approximately 270 employees at existing mortgage service operations. In 2014, total title segment employee count decreased by approximately 35 employees, resulting from a decrease of approximately 105 employees from existing, sold or closed title operations, reductions of 40 employees of acquired title operations, partially offset by increased employee count of 110 resulting from acquired operations.

In 2013, we increased our employee count company-wide by approximately 351, or 5.6%, including acquisitions. The increase in employee count 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 count company-wide by approximately 691, or 12.3% including acquisitions. The increase in employee count 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 our mortgage services segment, total employee costs as a percentage of operating revenue decreased to 63.5% from 65.0% in 2013. Actual costs increased $39.9 million, or 50.3%, in 2014. The employee costs were impacted by the increase in employees related to the 2014 acquisitions as well as the new service offering and contract. In 2013, actual costs increased $2.4 million, or 2.2%, primarily due to staff being retained while new contracts were solicited after existing contracts had expired. It was 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.

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

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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 general supplies, litigation defense, business promotion and marketing and travel.

In 2014, other operating expenses for the combined business segments increased $67.0 million, or 23.9%. In 2014, other operating expenses include an aggregate of $19.2 million for litigation-related matters and approximately $11.6 million related to costs incurred for a shareholder settlement, including related advisory expense, acquisition integration and projects related to the cost management program. Excluding the impact of these non-recurring costs, other operating costs for the combined business segments would have increased $36.2 million, or 12.9%.

Excluding the costs listed above, in 2014, costs fixed in nature increased $14.7 million, or 12.1%, primarily due to $16.9 million of fixed other operating costs of the recent acquisitions partially offset by $2.2 million of decreased costs incurred by existing operations. These increases are primarily due to increased technology costs, rent and other occupancy expenses. Costs that follow, to varying degrees, changes in transaction volumes and revenues increased $21.9 million, or 21.8%, in 2014, primarily due to increases in certain mortgage services expenses (resulting from increased mortgage service revenues related to the acquisitions) and fee attorney splits. Excluding the non-recurring litigation-related costs, costs that fluctuate independently of revenues decreased $0.3 million, or less than 1%.

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.

Title losses. Provisions for title losses, as a percentage of title operating revenues, were 4.7%, 5.9% and 8.1% in 2014, 2013 and 2012, respectively, including adjustments to certain large claims and escrow losses.

In addition to our normal title loss provision, we incurred $6.9 million in the fourth quarter 2014 relating to new large claims and adjustments to existing large claims. In the third quarter 2014, we recovered a portion of a large title loss incurred in prior years (legal agreements associated with this recovery preclude additional disclosure). In the second quarter 2014, we reduced our policy loss reserves by $6.5 million due to the results of our semi-annual actuarial analysis. As there was no adverse policy loss development on non-large claims in 2014, we lowered our overall loss provisioning rate in the third quarter 2014. The provisioning rate was previously lowered at the beginning of the second quarter 2013.

For the year ended December 31, 2014, title losses decreased 23.5% when compared to the same period in 2013. Excluding the impact of the reserve reductions and recovery described above, and increases to large claims (recorded in the third and fourth quarters of 2014 and fourth quarter 2013), title losses were 5.6% and 5.9% for the years ended December 31, 2014 and 2013, respectively. The title loss ratio in any given quarter can be significantly influenced by new large claims incurred as well as adjustments to reserves for existing large claims, and we continue to manage and resolve large claims prudently and in keeping with our commitments to our policyholders. For the years ended December 31, 2014 and 2013, we recorded approximately $4.4 million and $7.6 million, respectively, for policy loss expense relating to legacy escrow losses arising primarily from mortgage fraud.

Cash claim payments decreased 25.1% in 2014 and 6.7% in 2013.

Our liability for estimated title losses as of December 31, 2014 comprises both known claims and our estimate of claims that may be reported in the future (IBNR). Known claims reserves are reserves related to actual losses reported to us. Our reserve for known claims comprises both claims related to title insurance policies as well as losses arising from escrow, closing and funding operations due to fraud or error (which are recognized as expense when discovered). The amount of the reserve represents the aggregate, non-discounted future payments (net of recoveries) that we expect to incur on policy and escrow losses and in costs to settle claims.

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	December 31, 2014	December 31, 2013
	($000 omitted)	
Known claims	111.7	129.5
IBNR	383.7	377.4
Total estimated title losses	495.4	506.9

Title claims are generally incurred three to five years after policy issuance and the timing of payments on these claims can significantly impact the balance of known claims, since in many cases claims may be open for several years before resolution and payment occur and thus the estimate of ultimate amount to be paid may be modified over that time period.

For the year ended December 31, 2013, title losses decreased 24.1% in connection with the 3.8% increase in the title operating revenues when compared to the same period in 2012. Losses incurred on known claims for the year 2013 decreased 15.5% compared to the year 2012.

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 policy loss development improvement, we lowered our overall provisioning rate on non-large claims effective with policies issued in the second quarter and again in the fourth quarter of 2013.

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 on non-large claims 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 2012. Losses incurred on known claims for the year 2012 increased 1.3% compared to the year 2011.

Excluding the impact of the reserve reductions, large losses, and defalcations (net of recoveries), title losses as a percent of title operating revenues were 5.6%, 6.0% and 7.1% in 2014, 2013 and 2012, respectively.

Depreciation and amortization. Depreciation and amortization expense increased $6.3 million to $24.2 million in 2014 from $17.9 million in 2013. The increase is primarily due to $3.3 million of amortization expense on acquired intangible assets, $1.6 million of amortization expense relating to an underwriter production system placed into service July 1, 2014 and $0.7 million of additional depreciation expense on the fixed assets of the acquisitions.

Income taxes. Our effective tax rates were 31.2%, 31.1% and (37.3)% for 2014, 2013 and 2012, respectively, based on earnings before taxes and after deducting noncontrolling interests of $43.3 million, $91.5 million and $79.5 million in 2014, 2013 and 2012, respectively. In the fourth quarter 2014, we released $5.0 million of our deferred tax assets valuation allowance relating to foreign tax credit carryforwards that we believe will more-likely-than-not be utilized prior to expiration. As of December 31, 2014, our remaining deferred tax assets valuation allowance was $2.6 million, relating to certain state and foreign net operating loss carryforwards.

In the fourth quarter 2013, we released $6.6 million of our valuation allowance relating to a portion of our foreign tax credit carryforwards.

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Contractual obligations. Our material contractual obligations at December 31, 2014 were:

	Payments due by period ($ millions)				
	Less than 1 year	1-3 years	3-5 years	More than 5 years	Total
Credit facility	—	—	60.0	—	60.0
Notes payable	5.4	0.2	—	—	5.6
Operating leases	48.4	72.1	47.4	18.3	186.2
Estimated title losses	138.7	178.3	71.8	106.6	495.4
	192.5	250.6	179.2	124.9	747.2

Material contractual obligations consist primarily of amounts drawn on our line of credit facility which expires October 2019, notes payable, operating leases and estimated title losses. The timing above for payments of notes payable is based upon contractually stated payment terms of each debt agreement. Operating leases are primarily for office space and expire over the next ten 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 $86.7 million, $115.7 million and $124.0 million in 2014, 2013 and 2012, respectively

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, 2014, our cash and investments, including amounts reserved pursuant to statutory requirements, aggregated $805.7 million ($309.8 million net of statutory reserves).

Cash held at the parent company totaled $15.2 million at December 31, 2014. As a holding company, the parent company 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 management agreements, approved by the Texas Department of Insurance, among us and our subsidiaries. In addition to funding operating expenses, cash held at the parent company is used for dividend payments to common shareholders and our stock repurchase program. To the extent such uses exceed cash available, the parent company is dependent on distributions from its regulated title insurance underwriter, Stewart Title Guaranty Company (Guaranty).

A substantial majority of our consolidated cash and investments as of December 31, 2014 was held by Guaranty and its subsidiaries. The use and investment of these funds, dividends to the parent company, and cash transfers between Guaranty and its subsidiaries and the parent 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.

We maintain investments in accordance with certain statutory requirements in the states of domicile of our underwriters for the funding of statutory premium reserves. Statutory premium reserves, which approximated $438.5 million and $450.6 million at December 31, 2014 and 2013, respectively, are required to be fully funded and invested in high-quality securities and short-term investments. In addition, cash and cash equivalents-statutory reserve funds were approximately $57.4 million and $15.1 million at December 31, 2014 and 2013, respectively. Cash and cash equivalents-statutory reserve funds are not restricted or segregated in depository accounts. If the Company fails to maintain minimum investments or cash and cash equivalents to meet statutory requirements, the Company may be subject to fines or other penalties, including potential revocation of its business license. As of December 31, 2014, our statutory estimate of claims that may be reported in the future totaled $383.7 million. In addition to this, we had cash and investments (excluding equity method investments) of $185.1 million which are available for underwriter operations, including claims payments.

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The ability of Guaranty to pay dividends to its parent is governed by Texas insurance law. The Texas Department of Insurance must be notified of any dividend declared, and any dividend in excess of a statutory maximum (20% of surplus, which approximated $105.2 million as of December 31, 2014) would be by regulation considered extraordinary and subject to preapproval by the Department. Also, the Texas Insurance Commissioner may raise an objection to a planned distribution during the notification period. However, Guaranty's actual ability or intent to pay dividends to its parent may be constrained by business and regulatory considerations, such as the impact of dividends on surplus and the liquidity ratio, which could affect its ratings and competitive position, the amount of insurance it can write and its ability to pay future dividends. As of December 31, 2014, our statutory liquidity ratio for our principal underwriter was 0.96 to 1. Our internal objective is to achieve and maintain a ratio of at least 1:1, as we believe that ratio is crucial from both a ratings agency and competitive perspective. On an ongoing basis, this ratio will largely guide our decisions as to frequency and magnitude of dividends from the underwriter to the parent company. 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 paid $25.0 million in dividends to its parent in 2014 and none in 2013.

As the parent company conducts no operations apart from its wholly-owned subsidiaries, the discussion below focuses on consolidated cash flows.

	2014	2013	2012
	($ millions)		
Net cash provided by operating activities	64.0	87.2	120.5
Net cash used by investing activities	(78.6)	(78.4)	(36.5)
Net cash provided (used) by financing activities	26.0	(18.2)	(18.1)

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 2014 was $64.0 million, a decrease of $23.2 million from $87.2 million provided by operations in 2013, which was primarily a result of the decline in net earnings in 2014 compared with 2013.

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. In addition, we remain committed to our stated goal of achieving a minimum of $25.0 million of annualized structural cost savings exclusive of market conditions by the end of 2015. Activity around the cost management program intensified during the fourth quarter 2014 in accordance with the underlying project plans. Although this level of work and related implementation expense will continue through 2015, we have already achieved approximately $10.0 million of annualized savings.

Cash payments on title claims in 2014, 2013 and 2012 were $86.7 million, $115.7 million and $124.0 million, respectively. Claim payments made, net of insurance recoveries, during 2014, 2013 and 2012 include $5.4 million, $23.2 million and $28.8 million, respectively, on large title claims.

Investing activities

Cash from investing activities was generated principally by proceeds from investments matured and sold in the amounts of $197.2 million, $104.5 million and $181.9 million in 2014, 2013 and 2012, respectively. We used cash for the purchases of investments in the amounts of $224.7 million, $160.5 million and $207.7 million in 2014, 2013 and

2012, respectively.

Capital expenditures were $19.5 million, $17.3 million, and $16.8 million in 2014, 2013 and 2012, respectively. We maintain investment in capital expenditures at a level that enables us to implement technologies for increasing our operational and back-office efficiencies. We paid cash for acquisitions of $40.0 million, $14.9 million and $1.2 million in 2014, 2013, and 2012, respectively.

During the years ended 2014, 2013 and 2012, acquisitions resulted in additions to goodwill of $21.4 million, $10.9 million and $4.2 million, respectively.

Financing activities and capital resources

Total debt and stockholders' equity were $65.6 million and $700.5 million, respectively, as of December 31, 2014. In 2014 and 2013, we repaid $60.8 million and $12.2 million, respectively, of debt in accordance with the underlying terms of the debt instruments. On October 14, 2014, we exchanged the remaining $27.2 million of Notes, at maturity, for an aggregate of 2,111,017 shares of Common Stock. 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. On October 21, 2014, we replaced our $75.0 million unsecured line of credit with a new $125.0 million unsecured line of credit, which expires October 2019. Amounts outstanding under the new line of credit at December 31, 2014 were $60.0 million and were used principally to fund acquisitions. In order to preserve Guaranty's liquidity ratio, we also drew on the line of credit to provide working capital at the parent company and to fund the $10.5 million litigation settlement payment by Stewart Title Company in June 2014.

During 2014, we acquired approximately 685,000 shares of our Common Stock for an aggregate purchase price of approximately $22.0 million, pursuant to the previously announced $70 million stock repurchase program. Although we expect the substantial majority of our stock repurchase program to be completed in 2015, we will monitor share price and operating cash flow on an ongoing basis and evaluate the timing for further share repurchases accordingly. Key considerations regarding the timing of future share repurchases include achievement and maintenance of key underwriter financial strength ratios, including the liquidity ratio, maintenance of our underwriter insurer financial strength ratings and our parent company investment grade ratings at their present level and utilization of cash balances to fund growth initiatives.

We paid $2.3 million, $2.2 million and $1.8 million, respectively, in cash dividends to our shareholders representing $0.10 per share of Common Stock outstanding in 2014, 2013 and 2012. The declaration of any future dividend is at the discretion of our Board of Directors. On February 25, 2015, we announced that the board of directors approved an increase of our dividend payable to common shareholders from $0.10 per share annually to $1.00 per share to be paid quarterly at a rate of $0.25 per share beginning in the second quarter 2015.

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 $5.2 million in 2014, a net decrease of $4.9 million in 2013 and a net increase of $1.8 million in 2012. 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 2014.

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We believe we have sufficient liquidity and capital resources to meet the cash needs of our ongoing operations. However, we may determine that additional supplemental debt or equity funding is warranted to provide liquidity for achievement of strategic goals or acquisitions or for unforeseen circumstances. 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 in each of 2014 and 2013, relating to cost-basis investments.

Other comprehensive earnings (loss). Unrealized gains and losses on investments and changes in foreign currency exchange rates are reported net of deferred taxes in accumulated other comprehensive earnings, a component of stockholders' equity, until realized. In 2014, net unrealized investment gains of $9.2 million, which increased our other comprehensive earnings, were primarily related to increases in fair values of corporate, municipal and government bond investments, partially offset by temporary decreases in fair values of equity

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securities and deferred taxes. Changes in foreign currency exchange rates, primarily related to our Canadian operations, decreased other comprehensive earnings by $7.6 million, net of taxes, in 2014.

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 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 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.
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 17 to our accompanying consolidated financial statements.

Forward-looking statements. Certain statements in this report are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements relate to future, not past, events and often address our expected future business and financial performance. These statements often contain words such as “expect,” “anticipate,” “intend,” “plan,” “believe,” “seek,” “will,” “foresee” or other similar words. Forward-loo 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, 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 or 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 agencies 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 cost management program; our ability to successfully integrate acquired businesses; 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.

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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, 2014 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	60,697	60,879
After one year through two years	23,988	24,682
After two years through three years	53,835	55,315
After three years through four years	63,486	64,968
After four years through five years	55,043	56,306
After five years	277,621	289,717
	534,670	551,867

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 with aggregate fair values of $135.8 million and $133.8 million as of December 31, 2014 and 2013, respectively. Also included in foreign debt securities are United Kingdom treasury bonds at fair values of $27.3 million and $25.2 million as of December 31, 2014 and 2013, respectively.

Based on our foreign debt securities portfolio and foreign currency exchange rates at December 31, 2014, 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, 2014, a 100 basis-point increase (decrease) in interest rates would result in a decrease (increase) of approximately $23.0 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.

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-27, and such information is incorporated in this report by reference.

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

None.

Item 9A. Controls and Procedures

Our principal executive officer and principal financial officer are responsible for establishing and maintaining disclosure controls and procedures. They evaluated the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of December 31, 2014, 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, 2014. 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 (1992). Based on this assessment, management believes that, as of December 31, 2014, 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, 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. As a result, no corrective actions were required or undertaken.

Item 9B. Other Information

None.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance