

STEWART INFORMATION SERVICES CORP

Form 10-Q

August 03, 2011

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

**(Mark One)**

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

**For the quarterly period ended June 30, 2011**

**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**

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

On July 29, 2011, the following shares of each of the issuer's classes of common stock were outstanding:

Common, \$1 par value	18,246,785
Class B Common, \$1 par value	1,050,012



**FORM 10-Q QUARTERLY REPORT  
QUARTER ENDED JUNE 30, 2011  
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As used in this report, we, us, our, the Company and Stewart mean Stewart Information Services Corporation and its subsidiaries, unless the context indicates otherwise.

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**Table of Contents****PART I FINANCIAL INFORMATION**

## Financial Statements

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
	(\$000 omitted, except per share)			
<b>Revenues</b>				
Title insurance:				
Direct operations	165,841	171,200	305,070	300,705
Agency operations	213,829	230,453	405,638	433,024
Real estate information	22,564	26,659	53,949	38,201
Investment income	3,882	5,434	7,742	10,216
Investment and other (losses) gains net	(1,233)	7,795	(1,101)	10,708
	404,883	441,541	771,298	792,854
<b>Expenses</b>				
Amounts retained by agencies	177,301	191,820	335,748	360,555
Employee costs	116,587	119,532	234,513	233,635
Other operating expenses	64,249	67,694	123,375	132,081
Title losses and related claims	34,984	37,449	66,185	63,786
Depreciation and amortization	4,762	5,677	9,592	11,613
Interest	1,294	1,394	2,572	2,952
	399,177	423,566	771,985	804,622
Earnings (loss) before taxes and noncontrolling interests	5,706	17,975	(687)	(11,768)
Income tax (benefit) expense	(1,942)	5,863	1,189	4,325
Net earnings (loss)	7,648	12,112	(1,876)	(16,093)
Less net earnings attributable to noncontrolling interests	1,708	2,684	2,477	3,442
<b>Net earnings (loss) attributable to Stewart</b>	<b>5,940</b>	<b>9,428</b>	<b>(4,353)</b>	<b>(19,535)</b>
Comprehensive earnings (loss):				
Net earnings (loss)	7,648	12,112	(1,876)	(16,093)
Other comprehensive earnings, net of taxes of \$1,734 \$1,385, \$2,895 and \$2,869	2,380	1,843	1,990	3,833

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Comprehensive earnings (loss)	10,028	13,955	114	(12,260)
Less comprehensive earnings attributable to noncontrolling interests	1,708	2,684	2,477	3,442
Comprehensive earnings (loss) attributable to Stewart	8,320	11,271	(2,363)	(15,702)
Basic average shares outstanding (000)	19,216	18,320	19,024	18,289
Basic earnings (loss) per share attributable to Stewart	0.31	0.51	(0.23)	(1.07)
Dilutive average shares outstanding (000)	24,326	22,957	19,024	18,289
Diluted earnings (loss) per share attributable to Stewart	0.28	0.45	(0.23)	(1.07)

See notes to condensed consolidated financial statements.

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

	As of June 30, 2011	As of December 31, 2010
	(\$000 omitted)	
<b>Assets</b>		
Cash and cash equivalents	115,151	144,564
Cash and cash equivalents statutory reserve funds	7,534	9,926
	122,685	154,490
Short-term investments	39,838	33,457
Investments in debt and equity securities available-for-sale, at fair value:		
Statutory reserve funds	395,347	396,317
Other	64,820	54,007
	460,167	450,324
Receivables:		
Notes	10,252	10,747
Premiums from agencies	42,054	45,399
Income taxes	5,818	651
Trade and other receivables	37,401	41,323
Allowance for uncollectible amounts	(19,079)	(19,438)
	76,446	78,682
Property and equipment, at cost		
Land	6,466	6,445
Buildings	23,836	23,769
Furniture and equipment	252,960	250,355
Accumulated depreciation	(222,871)	(219,000)
	60,391	61,569
Title plants, at cost	77,406	77,397
Real estate, at lower of cost or net realizable value	2,431	3,266
Investments in investees, on an equity method basis	17,202	17,608
Goodwill	206,861	206,861
Intangible assets, net of amortization	7,706	8,228
Other assets	57,725	49,324
	1,128,858	1,141,206
<b>Liabilities</b>		
Notes payable	7,321	8,784
Convertible senior notes	64,425	64,338
Accounts payable and accrued liabilities	75,598	95,666

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Estimated title losses	498,514	495,849
Deferred income taxes	26,838	28,236
	672,696	692,873
Contingent liabilities and commitments		
<b>Stockholders' equity</b>		
Common and Class B Common Stock and additional paid-in capital	151,931	143,264
Retained earnings	278,314	282,666
Accumulated other comprehensive earnings	15,600	13,610
Treasury stock 352,161 and 476,227 common shares, at cost	(2,666)	(4,330)
Stockholders' equity attributable to Stewart	443,179	435,210
Noncontrolling interests	12,983	13,123
Total stockholders' equity (19,296,835 and 18,375,058 shares outstanding)	456,162	448,333
	1,128,858	1,141,206

See notes to condensed consolidated financial statements.

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

	For the Six Months Ended June 30,	
	2011	2010
	(\$000 omitted)	
Reconciliation of net loss to cash (used) provided by operating activities:		
Net loss	(1,876)	(16,093)
Add (deduct):		
Depreciation and amortization	9,592	11,613
Provision for bad debt	1,144	2,946
Investment and other losses (gains) net	1,101	(10,708)
Payments for title losses in excess of provisions	(972)	(10,979)
Insurance recoveries of title losses	2,605	5,802
Decrease in receivables net	4,930	34,168
Increase in other assets net	(3,350)	(4,454)
Decrease in payables and accrued liabilities net	(17,680)	(10,500)
(Decrease) increase in net deferred income taxes	(4,293)	609
Net earnings from equity investees	(653)	(637)
Dividends received from equity investees	1,110	1,231
Other net	1,832	2,645
<b>Cash (used) provided by operating activities</b>	<b>(6,510)</b>	<b>5,643</b>
Investing activities:		
Proceeds from investments available-for-sale matured and sold	140,560	119,513
Purchases of investments available-for-sale	(148,407)	(91,675)
Proceeds from redemptions of investments pledged		217,225
Purchases of property and equipment and title plants net	(11,108)	(3,828)
Increases in notes receivable	(174)	(285)
Collections on notes receivable	617	537
Change in cash and cash equivalents due to sale and deconsolidation of subsidiaries (see below)		(1,844)
Cash paid for loan guarantee obligation	(3,928)	
Net cash received for other assets, cost-basis investments, equity investees and other	10	4,744
<b>Cash (used) provided by investing activities</b>	<b>(22,430)</b>	<b>244,387</b>
Financing activities:		
Payments on notes payable	(1,639)	(5,458)
Payments on line of credit		(216,141)
Proceeds from notes payable	500	134
Distributions to noncontrolling interests	(2,613)	(2,879)
<b>Cash used by financing activities</b>	<b>(3,752)</b>	<b>(224,344)</b>
Effects of changes in foreign currency exchange rates	887	(853)
<b>(Decrease) increase in cash and cash equivalents</b>	<b>(31,805)</b>	<b>24,833</b>

Cash and cash equivalents at beginning of period	154,490	116,100
<b>Cash and cash equivalents at end of period</b>	<b>122,685</b>	<b>140,933</b>

See notes to condensed consolidated financial statements.

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

	For the Six Months Ended June 30,	
	2011	2010
	(\$000 omitted)	
Supplemental information:		
Settlement of wage and hour litigation through issuance of Common Stock	7,582	
Settlement of note payable through issuance of Common Stock held in treasury	1,299	
Changes in financial statement amounts due to sale and deconsolidation of subsidiaries:		
Note receivable		2,500
Investments in investees, on an equity method basis		5,316
Goodwill		(5,831)
Title plants		(1,048)
Property and equipment, net of accumulated depreciation		(1,560)
Intangible asset, net of amortization		2,827
Other net		(878)
Liabilities		1,344
Noncontrolling interests		336
Investment and other gains net		(1,162)
Change in cash and cash equivalents due to sale and deconsolidation of Subsidiaries		1,844

See notes to condensed consolidated financial statements.

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**Table of Contents****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

Interim financial statements

**NOTE 1**

**Interim financial statements.** The financial information contained in this report for the three and six months ended June 30, 2011 and 2010, and as of June 30, 2011, is unaudited. This report should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

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

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

**C. Reclassifications.** Certain amounts in the 2010 interim financial statements have been reclassified for comparative purposes. Net losses, as previously reported, were not affected.

Investments in debt and equity securities

**NOTE 2**

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

	June 30, 2011		December 31, 2010	
	Amortized costs	Fair values (\$000 omitted)	Amortized costs	Fair values
Debt securities:				
Municipal	36,242	37,318	39,589	40,185
Corporate and utilities	229,832	232,324	228,270	229,972
Foreign	162,367	164,630	155,977	157,745
U.S. Government	19,406	21,053	20,792	22,422
Equity securities	5,005	4,842		
	452,852	460,167	444,628	450,324

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Gross unrealized gains and losses were:

	June 30, 2011		December 31, 2010	
	Gains	Losses	Gains	Losses
	(\$000 omitted)			
Debt securities:				
Municipal	1,215	139	1,235	639
Corporate and utilities	4,749	2,257	4,574	2,872
Foreign	2,349	86	1,861	93
U.S. Government	1,647		1,634	4
Equity securities		163		
	9,960	2,645	9,304	3,608

Debt securities as of June 30, 2011 mature, according to their contractual terms, as follows (actual maturities may differ due to call or prepayment rights):

	Amortized costs	Fair values
	(\$000 omitted)	
In one year or less	15,798	15,945
After one year through five years	240,360	243,792
After five years through ten years	151,569	154,283
After ten years	40,120	41,305
	447,847	455,325

As of June 30, 2011, gross unrealized losses on investments and the fair values of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were:

	Less than 12 months		More than 12 months		Total	
	Losses	Fair values	Losses	Fair values	Losses	Fair values
	(\$000 omitted)					
Debt securities:						
Municipal	139	9,065	139	9,065	139	9,065
Corporate and utilities	2,257	100,513	2,257	100,513	2,257	100,513
Foreign	86	53,786	86	53,786	86	53,786
U.S. Government						
Equity securities	163	4,842	163	4,842	163	4,842
	2,645	168,206	2,645	168,206	2,645	168,206

The unrealized loss positions were primarily caused by interest rate fluctuations. The number of investments in an unrealized loss position as of June 30, 2011 was 54. Since the Company does not intend to sell and will more-likely-than-not maintain each debt security until its anticipated recovery, and no significant credit risk is deemed to exist, these investments are not considered other-than-temporarily impaired.







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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
	(\$000 omitted)			
Proceeds from sales of investments available-for-sale	94,971	50,681	110,759	101,425

For the six months ended June 30, 2011, investment and other (losses) gains net included realized losses on a loan guarantee obligation of \$3.9 million. The realized losses were partially offset by realized gains of \$2.5 million from the sale of debt investments available-for-sale.

For the six months ended June 30, 2010, investment and other (losses) gains net included realized gains of \$6.3 million primarily from a transfer of the rights to internally developed software, \$2.9 million from the sale of debt investments available-for-sale and \$1.2 million from the sale of interests in subsidiaries.

Share-based incentives

**NOTE 5**

**Share-based incentives.** The Company accounts for its stock option plan in accordance with the Compensation Stock Compensation Topic of the FASB ASC and uses the modified prospective method under which share-based compensation expense is recognized for new share-based awards granted, and any outstanding awards that are modified, repurchased or canceled subsequent to January 1, 2006. Compensation expense is based on the fair value of the options, which is estimated using the Black-Scholes Model. All options expire 10 years from the date of grant and are granted at the closing market price of the Company's Common Stock on the date of grant. There are no unvested awards since all options are immediately exercisable.

There were no options granted for option awards during the six months ended June 30, 2011 and 2010 and, accordingly, no compensation expense has been reflected in the accompanying condensed consolidated financial statements.

A summary of the Company's stock option plan follows:

	Options	Weighted- average exercise prices (\$)
December 31, 2010	183,700	23.80
Forfeited	(28,000)	19.68
June 30, 2011	155,700	24.54

As of June 30, 2011, the weighted-average remaining contractual life of options outstanding was 2.2 years and there was no aggregate intrinsic value of dilutive options.

In March 2011, the Company granted 51,000 shares of fully vested, unrestricted Common Stock with a fair value of \$0.6 million, which was recorded as compensation expense. During the same period, the Company also granted 37,000 shares of restricted Common Stock with a fair value of \$0.4 million. The restricted Common Stock awards will vest at 20% over five years beginning March 10, 2011. Compensation expense associated with restricted stock awards will be recognized over this vesting period.

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In March 2010, the Company granted 51,000 shares of fully vested, unrestricted Common Stock with a fair value of \$0.7 million, which was recorded as compensation expense. During this same period, the Company also granted 37,000 shares of restricted Common Stock with a fair value of \$0.5 million. The restricted Common Stock awards will vest at 20% over five years beginning March 10, 2010. Compensation expense associated with restricted stock awards will be recognized over this vesting period.

Earnings per share

**NOTE 6**

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

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

For the three months ended June 30, 2011 and 2010, the Company did not have any dilutive shares under the treasury stock method mentioned above since the exercise prices of the options were greater than the weighted-average market value of the shares, which excludes them from the diluted earnings calculation.

Also, since the Company reported a net loss after adjustments related to the if-converted method for the six months ended June 30, 2011 and 2010, there were no calculations of diluted per share amounts for these periods.

The calculation of the diluted earnings per share using the if-converted method is as follows for the three months ended June 30, 2011 and June 30, 2010:

	For the Three Months Ended June 30,	
	2011	2010
	(\$000 omitted, except per share)	
Numerator:		
Net earnings attributable to Stewart	5,940	9,428
Interest expense, net of tax effects	785	785
If-converted net earnings attributable to Stewart	6,725	10,213
Denominator (000):		
Basic average shares outstanding	19,216	18,320
Dilutive average number of shares relating to convertible senior notes	5,047	4,600
Dilutive average number of shares relating to restricted shares grant	63	37
Dilutive average shares outstanding	24,326	22,957
Diluted earnings per share attributable to Stewart	0.28	0.45

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Contingent liabilities and commitments

**NOTE 7**

**Contingent liabilities and commitments.** As of June 30, 2011, the Company was contingently liable for guarantees of indebtedness owed primarily to banks and others by certain third parties totaling \$0.7 million. Additionally, in the ordinary course of business, the Company guarantees the third-party indebtedness of certain of its consolidated subsidiaries, which aggregated \$3.5 million as of June 30, 2011, and related primarily to unused letters of credit for workers' compensation self-insurance coverage. These guarantees expire no later than 2019. The maximum potential future payments for the indebtedness guarantees were not more than the related notes payable recorded in the condensed consolidated balance sheet. The Company also guarantees the indebtedness related to lease obligations of certain of its consolidated subsidiaries. The maximum future obligations arising from these lease-related guarantees are not more than the Company's future minimum lease payments.

Segment information

**NOTE 8**

**Segment information.** The Company's two reportable segments are title insurance-related services (Title) and real estate information (REI). Selected statement of operations information related to these segments follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
	(\$000 omitted)			
Revenues:				
Title	382,319	414,882	717,349	754,653
REI	22,564	26,659	53,949	38,201
	404,883	441,541	771,298	792,854
Intersegment revenues:				
Title	69	123	103	185
REI	692	630	1,351	1,183
	761	753	1,454	1,368
Depreciation and amortization:				
Title	4,023	5,031	8,244	10,248
REI	739	646	1,348	1,365
	4,762	5,677	9,592	11,613
Earnings (loss) before taxes and noncontrolling interests:				
Title	(4,320)	5,438	(27,630)	(25,761)
REI	10,026	12,537	26,943	13,993
	5,706	17,975	(687)	(11,768)

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

	2011	2010
	(\$000 omitted)	
Identifiable assets:		
Title	1,070,309	1,082,083
REI	58,549	59,123
	1,128,858	1,141,206

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
	(\$000 omitted)			
United States	374,200	405,560	720,649	739,407
International	30,683	35,981	50,649	53,447
	404,883	441,541	771,298	792,854

Regulatory and legal developments

**NOTE 9**

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

After a 10 week trial, the jury returned a verdict of no damages, favorable to STGC and STGM, on April 29, 2011. Judgment was entered on June 30, 2011, and post-judgment motions are scheduled for hearing during the week of August 22, 2011. The Company does not believe that the outcome will materially affect its consolidated financial condition or results of operations.

\* \* \*

In January 2009, an action was filed by individuals against Stewart Title Guaranty Company, Stewart Title of California, Inc., Cuesta Title Company and others in the Superior Court of California for the County of San Luis Obispo alleging that the plaintiffs have suffered damages relating to loans they made through Hurst Financial Corporation to an individual named Kelly Gearhart and entities controlled by Gearhart. Thereafter, several other lawsuits making similar allegations, including a lawsuit filed by several hundred individuals, were filed in San Luis Obispo Superior Court, and one such lawsuit was removed to the United States District Court for the Central District of California. The defendants vary from case to case, but Stewart Information Services Corporation, Stewart Title Company and Stewart Title Insurance Company have also each been sued in at least one of the cases. Each of the complaints alleges some combination of the following purported causes of action: breach of contract, negligence, fraud, aiding and abetting fraud, constructive fraud, breach of fiduciary duty, breach of implied covenant of good faith and fair dealing, financial elder abuse, violation of California Business and Professions Code Section 17200, negligent misrepresentation, conversion, conspiracy, alter ego, specific performance and declaratory relief. The Company has demurred to or moved to dismiss the complaints in the actions where responses to the complaints have been due. Although the San Luis Obispo Superior Court has sustained demurrers to certain causes of action and certain individuals and entities and dismissed Stewart Information Services Corporation from one case without leave to amend, the Court has overruled the demurrers as to some causes of action. The United States District Court for the Central District of California granted the Company's motion to dismiss the First Amended Complaint as to the claim for violation of the Racketeer Influenced and Corrupt Organizations Act, with prejudice, and remanded the remainder of the case to the San Luis Obispo Superior Court. Discovery has commenced. On May 27, 2011, the Court entered an Order Coordinating Related Cases for Pre-Trial Purposes and a First Case Management Order for the Related Cases which applies to all of the pending actions. No trial dates have been set. The Company is vigorously defending itself against the allegations and does not believe that the outcome of these matters will materially affect its consolidated

financial condition or results of operations.

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

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

As of July 8, 2011, the Company has obtained dismissals of the claims in Arkansas, California, Delaware, Florida, Massachusetts, New Jersey, New York, Ohio, Pennsylvania (where the court dismissed the damages claims and granted defendants summary judgment on the injunctive claims), Texas and Washington. The Company filed a motion to dismiss in West Virginia (where all proceedings have been stayed and the docket closed). The plaintiffs have appealed the dismissal in Ohio to the United States Court of Appeals for the Sixth Circuit and the dismissals in Delaware, New Jersey and Pennsylvania to the United States Court of Appeals for the Third Circuit. The dismissals in New York and Texas have been affirmed by the United States Courts of Appeals for the Second and Fifth Circuits, respectively, and on October 4, 2010, the United States Supreme Court denied the plaintiffs' petitions for review of those decisions. The plaintiffs have appealed to the Second Circuit the dismissal of the RESPA claims by the court in New York. Although the Company cannot predict the outcome of these actions, it is vigorously defending itself against the allegations and does not believe that the outcome will materially affect its consolidated financial condition or results of operations.

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The Company is also subject to other claims and lawsuits arising in the ordinary course of its business, most of which involve disputed policy claims. In some of these lawsuits, the plaintiff seeks exemplary or treble damages in excess of policy limits. The Company does not expect that any of these proceedings will have a material adverse effect on its consolidated financial condition or results of operations. Along with the other major title insurance companies, the Company is party to a number of class action lawsuits concerning the title insurance industry. The Company believes that it has adequate reserves for the various litigation matters and contingencies discussed above and that the likely resolution of these matters will not materially affect its consolidated financial condition or results of operations.

The Company is subject to administrative actions and litigation relating to the basis on which premium taxes are paid in certain states. Additionally, the Company has received various other inquiries from governmental regulators concerning practices in the insurance industry. Many of these practices do not concern title insurance. The Company believes that it has adequately reserved for these matters and does not anticipate that the outcome of these inquiries will materially affect its consolidated financial condition or results of operations.

The Company is also subject to various other administrative actions and inquiries into its business conduct in certain of the states in which it operates. While the Company cannot predict the outcome of the various regulatory and administrative matters, it believes that it has adequately reserved for these matters and does not anticipate that the outcome of any of these matters will materially affect its consolidated financial condition or results of operations.

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**MANAGEMENT'S OVERVIEW**

We reported a net loss attributable to Stewart of \$4.4 million for the six months ended June 30, 2011 compared with a net loss attributable to Stewart of \$19.5 million for the same period in 2010. On a basic and diluted per share basis, our net loss attributable to Stewart was \$0.23 for the first six months of 2011 compared with a net loss attributable to Stewart of \$1.07 for the first six months of 2010. Revenues were \$771.3 million for the six months ended June 30, 2011 compared with \$792.9 million for the six months ended June 30, 2010.

Total revenues decreased 8.3% in the second quarter 2011 compared with the same period in 2010, while title revenues declined 5.5%. The decline in title revenues resulted primarily from declining home sales and a drop in U.S. refinance activity as unemployment rates remain in excess of 9 percent. The second quarter 2010 also benefited from the influence of the \$8,000 homebuyer tax credit, which ended in June 2010 and had the effect of motivating new buyers as well as pulling forward home sales that would likely have otherwise occurred in subsequent quarters of 2010. Total expenses decreased 5.8% in the second quarter 2011 compared with the second quarter 2010.

Our title office operations continued to improve, and our lender services operation again performed strongly. Commercial revenues continued to show year-over-year growth, as the commercial market rebounds from historic lows. International operations also continued to show solid improvement in operating earnings. Underwriting operations were impacted by an increase in the estimated loss on certain existing large title claims. The quarter was also impacted by a nonrecurring charge of \$3.9 million representing the payoff of a defaulted third-party loan on which we had issued a guarantee. Significantly, cash flow generated from operations improved in the second quarter 2011 when compared to the same period in the prior year by more than \$40 million to \$32.1 million.

Our REI segment continued to perform well, although revenue for the second quarter 2011 decreased compared to the second quarter 2010. Demand for loan modification services moderated in the second quarter from the very high levels in the past several quarters, but continues to be strong.

Losses from title policy claims decreased 6.6 percent for the second quarter 2011 compared to the same quarter 2010 and increased 12.1 percent compared to the first quarter 2011. As a percentage of title revenues, title losses were 9.2 percent, 9.3 percent and 9.4 percent in the second quarter 2011, second quarter 2010 and the first quarter 2011, respectively. The second quarters of 2011 and 2010 included charges to increase the estimated reserves on existing large claims of \$4.8 million and \$4.5 million, respectively, and the first quarter 2011 included charges of \$5.7 million relating primarily to changes in the estimated legal costs for a previously disclosed claim in litigation. During the second quarter, there was a judgment related to this litigation in the Company's favor. Excluding the impact of these charges, title losses were 8.0 percent, 8.2 percent, and 7.7 percent in the second quarters 2011 and 2010 and first quarter 2011, respectively. These adjusted percentages are non-GAAP measures; however, management believes they are important to investors in understanding title loss ratios.

We continue to believe we are on track to return to a normal loss ratio by the end of 2012, as cash claim payments decreased 19.6 percent from the second quarter 2010 and 17.8 percent from the first quarter 2011. Also, losses incurred on known claims for the six months ended June 30, 2011 decreased 18.8 percent compared to the same period in 2010. Incurred losses for the second quarter 2011 decreased 31.2 percent from the second quarter 2010 and 20.3 percent from first quarter 2011.

In early July our REI group completed the acquisition of a majority ownership interest in PMH Financial which provides REO services, short sale management, collateral valuation, subservicing, loan review and due diligence services to national and regional lenders. As foreclosures are expected to rise significantly in the near term, we are well-positioned to benefit from increasing demand for REO management services. This acquisition greatly enhances our overall lender services offerings and provides a great deal of synergy with a number of Stewart clients and services.

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**CRITICAL ACCOUNTING ESTIMATES**

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

**Title loss reserves**

Our most critical accounting estimate is providing for title losses associated with issued title insurance policies. Our liability for estimated title losses as of June 30, 2011 comprises both known claims (\$136.7 million) and our estimate of claims that may be reported in the future (\$361.8 million). The amount of the reserve represents the aggregate future payments (net of recoveries recognized) that we expect to incur on policy and escrow losses and in costs to settle claims.

Provisions for title losses, as a percentage of title operating revenues, were 9.3% and 8.7% for the six months ended June 30, 2011 and 2010, respectively. Actual loss payment experience, including the impact of payments on large losses as well as changes in estimates for 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 \$7.1 million for the six months ended June 30, 2011.

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 premiums resulting in a title loss expense for the period. This loss provision rate is set to provide for losses on current year policies, including the costs of administering, investigating, and/or defending claims, and is determined using moving average ratios of recent actual policy loss payment experience (net of recoveries recognized) 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 to provide for future title losses. The actuarially-based calculation is a paid loss development calculation where loss development factors are selected based on company data and input from our third-party actuaries. We also obtain input from third-party actuaries in the form of a reserve analysis utilizing generally accepted actuarial methods. While we are responsible for determining our loss reserves, we utilize this actuarial input to assess the overall reasonableness of our reserve estimation. If our recorded reserve amount is within a reasonable range (+/- 3.0%) of our actuarially-based reserve calculation and the actuary's point estimate, but not at the point estimate, our management assesses the major factors contributing to the different reserve estimates in order to determine the overall reasonableness of our recorded reserve, as well as the position of the recorded reserves relative to the point estimate and the estimated range of reserves. The major factors considered can change from period to period and include items such as current trends in the real estate industry (which management can assess, although there is a time lag in the development of this data for use by the actuary), the size and types of claims reported and changes in our claims management process. If the recorded amount is not within a reasonable range of our third-party actuary's point estimate, we will adjust the recorded reserves in the current period and reassess the provision rate on a prospective basis. Once our reserve for title losses is recorded, it is reduced in future periods as a result of claims payments and may be increased or reduced by revisions to our estimate of the overall level of required reserves.

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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 because 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 agent can mask one or more defalcations. In declining real estate markets, lower transaction volumes result in a lower incoming volume of funds, making it more difficult to cover up the misappropriation with incoming funds. Thus, when the defalcation is discovered, it often relates to several transactions. In addition, the overall decline in an independent agency's revenues, profits and cash flows increases the agency's incentive to improperly utilize the escrow funds from real estate transactions.

Internal controls relating to independent agencies include, but are not limited to, pre-signing and periodic audits, site visits and reconciliations of policy inventories and premiums. The audits and site visits cover examination of the escrow account bank reconciliations and an examination of a sample of closed transactions. In some instances, we are limited in our scope by attorney agents who cite client confidentiality. Certain states have mandated a requirement for annual reviews of all agents 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 management override at the independent agencies. To aid in the selection of 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 agencies with deficiencies will be identified. In addition, we are typically not the only underwriter for which an independent agency issues policies and 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 June 30, 2011 and December 31, 2010. The differences between the amounts our agencies have subsequently reported to us compared to our estimated accruals are substantially offset by any differences arising from prior years' accruals and have been immaterial to consolidated assets and stockholders' equity during each of the three prior years. We believe our process provides the most reliable estimate of the unreported revenues on policies and appropriately reflects the trends in agency policy activity.

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**Goodwill and other long-lived assets**

Our evaluation of goodwill is normally completed annually in the third quarter using June 30 balances (our current annual review has been completed), but an evaluation may also be made whenever events may indicate impairment. This evaluation is based on a combination of a discounted cash flow analysis (DCF) and market approaches that incorporate market multiples of comparable companies and our own market capitalization. The DCF model utilizes historical and projected operating results and cash flows, initially driven by estimates of changes in future revenue levels, and risk-adjusted discount rates. Our projected operating results are primarily driven by anticipated mortgage originations, which we obtain from projections by industry experts. Fluctuations in revenues, followed by our ability to appropriately adjust our employee count and other operating expenses, 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 continued adverse market conditions, an interim review for impairment may be required, which may result in an impairment of goodwill.

We evaluate goodwill separately for our two reporting units (Title and REI). Goodwill is assigned to these reporting units at the time the goodwill is initially recorded. Once assigned to a reporting unit, the goodwill is pooled and no longer attributable to a specific acquisition. All activities within a reporting unit are available to support the carrying value of the goodwill.

We also evaluate the carrying values of title plants and other long-lived assets when events occur that may indicate impairment. The process of determining impairment for our goodwill and other long-lived assets relies on projections of future cash flows, operating results, discount rates and overall market conditions, including our market capitalization. Uncertainties exist in these projections and they are subject to changes relating to factors such as interest rates and overall real estate and financial market conditions, our market capitalization and overall stock market performance. Actual market conditions and operating results may vary materially from our projections. Based on these evaluations, we estimate and expense to current operations any loss in value of these assets. As part of our process, we obtain input from third-party appraisers regarding the fair value of our reporting units. While we are responsible for assessing whether an impairment of goodwill exists, we utilize the input from third-party appraisers to assess the overall reasonableness of our conclusions. There were no impairment write-offs of goodwill or other long-lived assets during the six months ended June 30, 2011 or 2010.

**Operations.** Our business has two main operating segments: title insurance-related services and real estate information (REI). These segments are closely related due to the nature of their operations and common customers. Our primary business is title insurance and settlement-related services. We close transactions and issue title policies on homes and commercial and other real properties located in all 50 states, the District of Columbia and international markets through policy-issuing offices and agencies. Our REI segment provides electronic delivery of data, products and services related to real estate and mortgage loss mitigation, default services, post-closing services, automated county clerk land records, property ownership mapping, geographic information systems, property information reports, document preparation, background checks and expertise in Internal Revenue Code Section 1031 tax-deferred property exchanges.

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

- mortgage interest rates;
- ratio of purchase transactions compared with refinance transactions;
- ratio of closed orders to open orders;
- home prices;
- volume of distressed property transactions;
- consumer confidence;
- demand by buyers;
- number of households;
- availability of loans for borrowers;
- premium rates;
- market share;
- opening of new offices and acquisitions;
- number of commercial transactions, which typically yield higher premiums; and
- government or regulatory initiatives, including tax incentives

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

**RESULTS OF OPERATIONS**

Comparisons of our results of operations for the three and six months ended June 30, 2011 with the three and six months ended June 30, 2010 follow. Factors contributing to fluctuations in our results of operations are presented in the order of their monetary significance and we have quantified, when necessary, significant changes. Results from our REI segment are included in our discussions regarding the three and six months ended June 30, 2011 and 2010, and when relevant, we have discussed REI segment's results separately.

Our statements on home sales 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. We also use information from our direct operations.

**Operating environment.** Data as of June 2011 compared with the same period in 2010 indicates annualized sales of new homes, seasonally adjusted, increased 1.6%, and sales of existing homes, seasonally adjusted, decreased 8.8%. June 2011 existing home sales were at a seasonally adjusted annual rate of 4.8 million versus 5.2 million a year earlier. Even though interest rates continue to be relatively low by historical standards, general economic conditions conducive to the housing market such as low unemployment, increasing household formation, and a comparatively low inventory of unsold homes, are not present. One-to-four family residential lending decreased from an estimated

\$339 billion in the second quarter of 2010 to \$311 billion in the first quarter of 2011 (most recent actual data available), primarily driven by an estimated \$48 billion decrease in purchase originations from the second quarter of 2010 to the first quarter of 2011 (most recent data available). Commercial lending activity industry-wide improved by 89% in the first quarter of 2011 (most recent data available) compared with the same period of 2010.

According to Fannie Mae and other industry experts, the real estate and related lending markets continue to face challenges due to weakened consumer confidence, partially resulting from high unemployment. Mortgage originations are forecasted to decrease from \$1.5 trillion in 2010 to \$1.0 trillion in 2011 primarily due to an expected 45%, or \$469 billion, reduction in refinance originations.

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**Three months ended June 30, 2011 compared with three months ended June 30, 2010**

**Title revenues.** Revenues from direct title operations decreased \$5.4 million, or 3.1%, in the second quarter of 2011 compared to the second quarter of 2010 primarily due to the decreased number of closings, partially offset by an increase in commercial and large transactions. The largest revenue decreases were in Texas, Canada, and New York. These revenue decreases were offset somewhat by increases in Florida and in foreign operations other than Canada. Revenues from commercial and other large transactions increased \$3.9 million, or 16.7%, in the second quarter of 2011 compared to the second quarter of 2010.

Direct orders closed decreased 13.7% in the second quarter of 2011 compared to the second quarter of 2010, but the average revenue per file closed increased 12.3% for the same period. The increase in average revenue per closing is driven by a change in the type of order closed, with the second quarter of 2011 experiencing more large commercial closings and fewer residential refinancings than in the second quarter of 2010. On average, refinance premium rates are 60% of the title premium revenue of a similarly priced sale transaction. Direct operating revenues, excluding large commercial policies, decreased 6.2% in the second quarter of 2011 compared to the second quarter of 2010. The average revenue per closing, excluding large commercial policies, increased 8.8% in the second quarter of 2011 compared to the second quarter of 2010.

Revenues from independent agencies decreased \$16.6 million, or 7.2%, in the second quarter of 2011 compared to the second quarter of 2010. This decrease is largely due to the decline in transaction volumes from large agents as a result of fewer refinancing transactions occurring in the second quarter of 2011 compared with the same period in 2010. The largest decreases in revenues from agencies during the three months ended June 30, 2011 were in California, Utah, New Jersey, Arizona, and Ohio partially offset by a large increase in New York.

**REI revenues.** Real estate information operating revenues decreased \$4.1 million, or 15.4%, in the second quarter of 2011 compared to the second quarter of 2010. The decrease was primarily due to a decrease in demand for our loan modification services. Demand for these services is dependent on the number and scale of governmental programs and lender projects and can fluctuate significantly from quarter to quarter.

**Investment income.** Investment income decreased \$1.6 million, or 28.6%, in the second quarter of 2011 compared to the second quarter of 2010, primarily due to decreases in the average yield. Certain investment gains and losses, which are included in our results of operations in investment and other gains net, were realized as part of the ongoing management of our investment portfolio for the purpose of improving performance.

For the second quarter 2011, investment and other (losses) gains net included a \$3.9 million charge relating to a loan guarantee obligation partially offset by realized gains of \$2.2 million from the sale of debt investments available-for-sale. The loan guarantee charge represents the payoff value on a defaulted third party loan on which we served as guarantor. As collateral for our guarantee, we hold a personal guarantee collateralized by equity in a private company. We are assessing the value of the assets the third party lender held as collateral (which we will assume ownership of), the ability of the individual guarantor to pay us, and the value of the equity in the private company supporting that individual guarantee. Since such evaluation has not been completed, no anticipated recovery is included in the consolidated financial statements for the period ended June 30, 2011.

For the second quarter 2010, investment and other (losses) gains net included realized gains of \$6.3 million primarily from a transfer of the rights to internally developed software and \$1.6 million from the sale of debt and equity investments available-for-sale.

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**Retention by agencies.** Amounts retained by title agencies are based on agreements between agencies and our title underwriters. 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. On average, amounts retained by independent agencies, as a percentage of revenues generated by them, were 82.9% and 83.2% in the second quarters of 2011 and 2010, respectively. We actively increased remittance rates with many of our independent agencies in 2010 and the first half of 2011, increasing the amount of premiums remitted by our independent agencies to our underwriters. As these efforts were ongoing during most of 2010 and in 2011, we have not yet realized a full year of increased remittances. Since remittance rates vary by state, geographic shifts in housing market activity may cause some quarter-to-quarter remittance rate fluctuations. As the year progresses, the overall remittance rate should remain on an upward trajectory as we complete this nationwide transition to higher remittance levels and begin to fully recognize the benefits of these increases. In addition, we expect the mix of agency business to normalize as real estate markets continue to stabilize nationally resulting in lower average retention percentages in the aggregate.

**Employee costs.** Our employee costs and certain other operating expenses are sensitive to inflation. Employee costs in the second quarter 2011 were down 1.1 percent sequentially from the first quarter 2011 and down 2.5 percent from the second quarter 2010. Headcount has declined by over 190 since June 30, 2010 and approximately 125 since year end 2010. We anticipate a continued reduction in employee costs in 2011 as we complete deployment of a new and more efficient title production system.

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

In the second quarter of 2011 compared with the same period in 2010, other operating expenses for the combined business segments decreased \$3.4 million, or 5.1%. Costs fixed in nature decreased \$1.6 million, or 5.6%, in the second quarter of 2011, primarily due to decreases in insurance, rent and other occupancy expenses related to office closures in prior years, and other cost reduction efforts. Costs that follow, to varying degrees, changes in transaction volumes and revenues decreased \$3.5 million, or 12.6%, in the second quarter of 2011. This decrease was primarily related to decreases in bad debt expense, attorney fees and other cost reduction efforts. Costs that fluctuate independently of revenues increased \$1.7 million, or 16.0%, in the second quarter of 2011, primarily due to an increase in litigation defense and travel costs.

**Title losses.** Provisions for title losses, as a percentage of title revenues, were 9.2% and 9.3% for the second quarters of 2011 and 2010, respectively. The second quarter of 2011 included \$4.8 million of charges to increase the reserves on several existing large losses. Excluding the impact of large losses, title losses were 8.0% of title revenues for the three months ended June 30, 2011. The second quarter 2010 included a \$5.3 million charge relating to adjustments to previously recorded large title losses, partially offset by an insurance recovery of \$0.9 million on a previously recognized title loss. Provisions for title losses, as a percentage of title revenues, were 9.3% in the second quarter of 2010 and excluding the impact of the large title losses in the period were 8.2%. These adjusted percentages are non-GAAP measures; however, management believes they are important to investors in understanding title loss ratios. Cash claim payments decreased 19.6% from the second quarter 2010 and 17.8% from the first quarter 2011.

**Income taxes.** Our effective tax rates were (48.6%) and 38.3% for the second quarters of 2011 and 2010, respectively, based on losses before taxes and after deducting earnings of noncontrolling interests, which aggregated \$4.0 million and \$15.3 million for the second quarters of 2011 and 2010, respectively. The second quarter 2011 income tax benefit resulted from favorable tax adjustments primarily in our foreign operations partially offset by income tax expense related to foreign, state and federal income taxes associated with subsidiary earnings that are not included in our U.S. consolidated federal tax return.



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Our effective income tax rate for the second quarter of 2010 was impacted by a \$0.4 million increase in the valuation allowance against our deferred tax assets. The net income tax benefit expense recorded in the second quarter of 2010 is principally related to foreign taxes, state taxes and income taxes associated with subsidiaries not included in our consolidated federal tax return.

**Six months ended June 30, 2011 compared with six months ended June 30, 2010**

**Title revenues.** Revenues from direct title operations increased \$4.4 million, or 1.5%, in the first six months of 2011 compared to the first six months of 2010 primarily due an increase in commercial and large transactions, partially offset by a decrease in the number of closings. The largest revenue increases were in California, Florida, and foreign operations other than Canada. These increases were partially offset by decreases in New York, Texas, and Canada. Commercial revenues increased 22.1%, or \$9.4 million.

Direct operating revenues, excluding large commercial policies, decreased 2.0% in the first six months of 2011 compared to the first six months of 2010, primarily due to fewer direct orders closed. The average revenue per closing, excluding large commercial policies, increased 5.5% in the first six months of 2011 compared to the first six months of 2010. Direct orders closed, including large commercial policies, decreased 7.1% in the first six months of 2011 compared to the first six months of 2010, although the average revenue per closing, including large commercial policies, increased 9.2% during the same period. Our decrease in direct orders closed and increase in average revenue per closing are driven by a different mix of closings, with the first six months of 2011 experiencing more large commercial closings and fewer residential refinancing closings than in the first six months of 2010. On average, refinance premium rates are 60% of the title premium revenue of a similarly priced sale transaction.

Revenues from independent agencies decreased \$27.4 million, or 6.3%, in the first six months of 2011 compared to the first six months of 2010. This decrease is largely due to a decline in transaction volumes from large agents as a result of fewer refinancing transactions occurring in the first six months of 2011 compared with the same period in 2010. The largest decreases in revenues from agencies during the first six months of 2011 were in California, New Jersey and Utah, partially offset by increases in New York.

Since the beginning of the current downturn in real estate markets across the country, the median selling price of homes has fallen 17.9% from August 2007 to June 2011, which has resulted in lower premium revenue per resale closing. As a consequence, in 2009 we began a review of our premium rates in all states. Where possible, we are seeking to raise rates or to modify agency splits (the percent of premium remitted to the underwriter compared to the amount retained by the agency) to levels necessary to improve profitability from our agency operations. To date, we have increased title premium rates in 29 states and have increased remittance rates with our independent agencies in 38 states. As these efforts were ongoing during most of 2010 and into 2011, we have not yet realized a full year of increased remittances.

**REI revenues.** Real estate information operating revenues increased \$15.7 million, or 41.2%, in the first six months of 2011 compared to the first six months of 2010. The increase was primarily due to a significant rise in demand for our loan modification services. Demand for these services is dependent on the number and scale of governmental programs and lender projects and can fluctuate significantly from quarter to quarter.

**Investment income.** Investment income decreased \$2.5 million, or 24.2%, in the first six months of 2011 compared to the first six months of 2010, primarily due to decreases in the average invested balances and, to a lesser extent, decreases in yield. Certain realized investment gains and losses, which are included in our results of operations in investment and other (losses) gains net, arise from the ongoing management of our investment portfolio for the purpose of improving performance.

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For the six months ended June 30, 2011, investment and other (losses) gains net include a \$3.9 million charge relating to a loan guarantee obligation partially offset by realized gains of \$2.5 million from the sale of debt instruments available-for-sale. The loan guarantee charge represents the payoff value on a defaulted third party loan on which we served as guarantor. As collateral for our guarantee, we hold a personal guarantee collateralized by equity in a private company. We are assessing the value of the assets the third party lender held as collateral (which we will assume ownership of), the ability of the individual guarantor to pay us, and the value of the equity in the private company supporting that individual guarantee. Since such evaluation has not been completed, no anticipated recovery is included in the financial statements for the period ended June 30, 2011.

For the six months ended June 30, 2010, investment and other gains (losses) net included realized gains of \$6.3 million primarily from a transfer of the rights to internally developed software, \$2.9 million from the sale of debt and equity investments available-for-sale and \$1.2 million from the sale of interests in subsidiaries.

**Retention by agencies.** Amounts retained by title agencies are based on agreements between agencies and our title underwriters. 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. On average, amounts retained by independent agencies, as a percentage of revenues generated by them, were 82.8% and 83.3% in the first six months of 2011 and 2010, respectively. We actively increased remittance rates with many of our independent agencies in 2010 and the first half of 2011, increasing the amount of premiums remitted by our independent agencies to our underwriters. As these efforts were ongoing during most of 2010, we have not yet realized a full year of increased remittances. Since remittance rates vary by state, geographic shifts in housing market activity may cause some quarter-to-quarter remittance rate fluctuation. As the year progresses, the overall remittance rate should remain on an upward trajectory as we complete this nationwide transition to higher remittance levels and begin to fully recognize the benefits of these increases. In addition, we expect the mix of agency business to normalize as real estate markets continue to stabilize nationally resulting in lower average retention percentages in the aggregate.

**Employee costs.** Our employee costs and certain other operating expenses are sensitive to inflation. Employee costs for the combined business segments remained relatively flat, increasing only 0.4%, in the first six months of 2011 compared to the first six months of 2010. We reduced our employee count company-wide by approximately 125 during the first six months of 2011, but the cost impact of these decreases was offset by increases in state unemployment tax rates in certain states as well as by increases in incentive compensation related to the significant improvement in commercial and REI operations. Going forward, we anticipate a continued reduction in employee costs as we move toward deployment of a new and more efficient title production system.

In our REI segment, total employee costs increased \$1.0 million, or 8.9%, in the first six months of 2011 compared to the first six months of 2010, primarily due to increases in staffing driven by increased demand for our loan modification services.

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

Other operating expenses for the combined business segments decreased \$8.7 million, or 6.6%, in the first six months of 2011 compared to the first six months of 2010. Costs fixed in nature decreased \$5.1 million in the first six months of 2011 compared with the first six months of 2010 primarily due to decreases in rent and other occupancy expenses and insurance costs. Costs that follow, to varying degrees, changes in transaction volumes and revenues decreased \$4.2 million in the first six months of 2011 compared with the first six months of 2010, primarily related to a reduction in bad debt expense and a decrease in title plant expenses. Costs that fluctuate independently of revenues were relatively flat in the first six months of 2011 compared with the first six months of 2010.



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**Title losses.** Provisions for title losses, as a percentage of title operating revenues, were 9.3% and 8.7% for the first six months of 2011 and 2010, respectively. Provisions for title losses in the first six months of 2011 included a \$10.5 million charge to increase the estimated reserves of several existing large title losses. The first six months of 2010 included a \$7.0 million charge relating to adjustments to estimated reserves on previously recorded large title losses, partially offset by an insurance recovery of \$1.7 million on a previously recognized title loss.

**Income taxes.** Our effective tax rates were (37.6%) and (28.4%) for the first six months of 2011 and 2010, respectively, based on losses before taxes and after deducting noncontrolling interests, which aggregated \$3.2 million and \$15.2 million for the first six months of 2011 and 2010, respectively. Income tax expense for the six months ended June 30, 2011 and 2010 consists principally of taxes in foreign jurisdictions for our profitable international operations and of U.S. federal tax on entities not included in our U.S. consolidated return. Income tax expense was partially offset by favorable tax adjustments primarily in our foreign operations. For all periods presented, we recognized no net income tax benefit for pretax losses. A valuation allowance has been established against our U.S. federal deferred tax assets. The valuation allowance will be evaluated for reasonableness as we return to profitability.

**LIQUIDITY AND CAPITAL RESOURCES**

Our liquidity and capital resources represent our ability to generate cash flow to meet our obligations to our shareholders, customers (payments to satisfy claims on title policies), vendors, employees, lenders and others. As of June 30, 2011, our cash and investments, including amounts reserved pursuant to statutory requirements, aggregated \$622.7 million.

A substantial majority of our consolidated cash and investments as of June 30, 2011 was held by Stewart Title Guaranty Company (Guaranty) and its subsidiaries. The use and investment of these funds, dividends to the holding company, and cash transfers between Guaranty and its subsidiaries and the holding company are subject to certain legal and regulatory restrictions. In general, Guaranty may use its cash and investments in excess of its legally-mandated statutory premium reserve (established in accordance with requirements under Texas law) to fund its insurance operations, including claims payments. Guaranty may also, subject to certain limitations and upon regulatory approval, pay dividends to the holding company and/or provide funds to its subsidiaries (whose operations consist principally of field title offices) for their operating and debt service needs.

A summary of our net consolidated cash flows for the six months ended June 30 follows:

	2011	2010
	(dollars in millions)	
Net cash (used) provided by operating activities	(6.5)	5.6
Net cash (used) provided by investing activities	(22.4)	244.4
Net cash used by financing activities	(3.7)	(224.3)

**Operating activities**

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

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Our decreased cash flow from operations for the first six months of 2011 compared to the first six months of 2010 was primarily due to the one-time receipt of a \$50.9 million income tax refund in the first quarter of 2010. Excluding the impact of this cash receipt, net cash from operations improved by \$38.8 million in the current year. This improvement was largely driven by increased revenues in our real estate information services segment. Also, although transaction volume in our direct title operations has declined, a shift in mix to a higher proportion of resale transactions versus refinance transactions has resulted in a higher overall cash yield per transaction. While we do not track the transaction mix of our independent agents, we believe this shift in mix has also positively influenced cash flow from this channel. Also improving cash flow from our independent agent network is an increase in our average cash remittance rate from 16.7% in the first six months of 2010 to 17.2% in the first six months of 2011. Further, the growth in revenues in our commercial operations, which generate much larger fees per transaction than residential operations, has contributed to the improved cash flow. Cash payments on title claims were also improved with payments totaling \$65.4 million in the first six months of 2011 compared to \$74.8 million in the first six months of 2010.

Our business continues to be labor intensive, although we have made significant progress in automating our production processes. We have centralized order processing into Regional Production Centers, which allows us to more easily adjust staffing levels as order volumes fluctuate. There are typically delays between changes in market conditions and changes in staffing levels; therefore, employee costs do not change at the same rate as revenues change.

The insurance regulators of the states in which our underwriters are domiciled require our statutory premium reserves to be fully funded, segregated and invested in high-quality securities and short-term investments. As of June 30, 2011, cash and investments funding the statutory premium reserve aggregated \$402.9 million and our statutory estimate of claims that may be reported in the future totaled \$361.8 million. In addition to this restricted cash and investments, we had unrestricted cash and investments (excluding equity method investments) of \$124.9 million, which are available for underwriter operations, including claims payments.

### **Investing activities**

Cash from investing activities was generated principally by proceeds from investments matured and sold in the amounts of \$140.5 million and \$119.5 million for the first six months of 2011 and 2010, respectively. We used cash for the purchases of investments in the amounts of \$148.4 million and \$91.7 million for the first six months of 2011 and 2010, respectively. The cash from sales and maturities not reinvested was used principally to fund operations. Capital expenditures were \$11.1 million and \$3.8 million for the first six months of 2011 and 2010, respectively. We maintain investment in capital expenditures at a level that enables us to implement technologies increasing our operational and back-office efficiencies. Notwithstanding this, we also continue to aggressively manage cash flow and, therefore, overall capital spending will continue to be at relatively reduced levels.

In June 2011, we paid \$3.9 million in satisfaction of a loan guaranty obligation on a defaulted third-party loan.

### **Financing activities and capital resources**

Total debt and stockholders' equity were \$71.7 million and \$456.2 million, respectively, as of June 30, 2011. Included in total debt are \$65.0 million principal amount of convertible senior notes which mature October 2014 if not converted into shares of common stock. We repaid \$1.6 million and \$5.5 million of debt in accordance with the underlying terms of the debt instruments for the six months ended June 30, 2011 and 2010, respectively. We also have available a \$10.0 million bank line of credit, expiring in June 2013, under which no borrowings were outstanding at June 30, 2011.

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

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**Effect of changes in foreign currency rates**

The effect of changes in foreign currency rates on the consolidated statements of cash flows was a net increase in cash and cash equivalents of \$0.9 million for the first six months of 2011 as compared to a net decrease of \$0.9 million for the first six months of 2010. Our principal foreign operating unit is in Canada, and, on average, the value of the U.S. dollar relative to the Canadian dollar decreased during the first six months of 2011.

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Throughout 2010 and continuing in 2011, we have worked to increase title premium rates charged and premium remittance rates to our underwriters. As of June 30, 2011, we have increased title premium rates in 29 states and have increased remittance rates with our independent agencies in 38 states. In addition, we have continued to reduce our employee count and other operating costs. We anticipate improved operating results, and thus cash flow, in 2011 from the impact of these actions and from our REI businesses and will continue to seek rate increases or modify agency splits where appropriate, as well as aggressively seek opportunities to lower operating costs. We will also continue to consider opportunities to enter into new lines of business or to supplement and expand existing lines of business (for example, our acquisition of PMH Financial in July 2011) in order to improve our results of operations and cash flows. We believe we have sufficient liquidity and capital resources to meet the cash needs of our ongoing operations. However, if we determine that supplemental debt, including additional convertible debentures, or equity funding is warranted or can be obtained on favorable terms to provide additional liquidity, we may pursue those sources of cash. Other than scheduled maturities of debt, operating lease payments and anticipated claims payments in 2011, we have no material commitments. We expect that cash flows from operations and cash available from our underwriters, subject to regulatory restrictions, will be sufficient to fund our operations, including claims payments. However, to the extent that these funds are not sufficient, we may be required to borrow funds on terms less favorable than we currently have, or seek funding from the equity market, which may not be successful or may be on terms that are dilutive to existing shareholders.

**Contingent liabilities and commitments.** As of June 30, 2011, we were contingently liable for guarantees of indebtedness owed primarily to banks and others by certain third parties. Additionally, in the ordinary course of business, we guarantee third-party indebtedness of certain consolidated subsidiaries. As of June 30, 2011, these guarantees totaled \$4.2 million, and they expire no later than 2019. These guarantees largely relate to unused letters of credit amounting to \$3.5 million, for workers' compensation self-insurance coverage. The maximum potential future payments for the indebtedness guarantees were not more than the related notes payable recorded in the condensed consolidated balance sheet. The Company also guarantees the indebtedness related to lease obligations of certain of its consolidated subsidiaries. The maximum future lease obligations arising from these lease-related guarantees are not more than the Company's future minimum lease payments.

**Other comprehensive earnings.** Unrealized gains and losses on investments and changes in foreign currency exchange rates are reported net of deferred taxes in accumulated other comprehensive earnings, a component of stockholders' equity, until realized. For the six months ended June 30, 2011, net unrealized investment gains of \$1.1 million, which increased our comprehensive income, were primarily related to temporary increases in fair market values of corporate and government bond investments. For the six months ended June 30, 2010, net unrealized investment gains of \$5.5 million, which decreased our comprehensive loss, were primarily related to temporary increases in fair market values of corporate bond investments. Changes in foreign currency exchange rates, primarily related to our Canadian operations, increased comprehensive income by \$0.9 million, net of taxes, for the six months ended June 30, 2011 and were relatively unchanged for the first six months of 2010.

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**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. See Note 18 in our Annual Report on Form 10-K for the year ended December 31, 2010.

**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 or other similar words. Forward-looking by their nature are subject to various risks and uncertainties that could cause our actual results to be materially different than those expressed in the forward-looking statements. These risks and uncertainties include, among other things, the severity and duration of current financial and economic conditions; continued weakness or further adverse changes in the level of real estate activity; changes in mortgage interest rates and availability of mortgage financing; our ability to respond to and implement technology changes, including the completion of the implementation of our enterprise systems; the impact of unanticipated title losses on the need to further strengthen our policy loss reserves; any effect of title losses on our cash flows and financial condition; the impact of our increased diligence and inspections in our agency operations; changes to the participants in the secondary mortgage market and the rate of refinancings that affect the demand for title insurance products; our ability to successfully consummate acquisitions, and our ability to successfully integrate and manage acquired businesses should opportunities arise; 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 litigation claims by large classes of claimants; 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 and underwriters as a source of cash flow; the continued realization of expected expense savings resulting from our expense reduction steps; our ability to access the equity and debt financing markets when and if needed; our ability to grow our international operations; our ability to respond to the actions of our competitors; failure to comply with financial covenants contained in our debt instruments; and inability to make scheduled payments on or refinance our indebtedness. These risks and uncertainties, as well as others, are discussed in more detail in our documents filed with the Securities and Exchange Commission, including our Annual Report on Form 10-K for the year ended December 31, 2010 and our Current Reports on Form 8-K. 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.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

There have been no material changes during the quarter ended June 30, 2011 in our investment strategies, types of financial instruments held or the risks associated with such instruments that would materially alter the market risk disclosures made in our Annual Report on Form 10-K for the year ended December 31, 2010.

**Item 4. Controls and Procedures**

Our principal executive officers 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 June 30, 2011, 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 officers and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

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There has been no change in our internal control over financial reporting during the quarter ended June 30, 2011 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.

**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

See discussion of legal proceedings in NOTE 9 to the Condensed Consolidated Financial Statements included in Item 1 of Part I of this Report, which is incorporated by reference into this Part II, Item 1, as well as Item 3. Legal Proceedings, in our Annual Report on Form 10-K for the year ended December 31, 2010.

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**Item 1A. Risk Factors**

There have been no changes during the quarter ended June 30, 2011 to our risk factors as listed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

**Item 5. Other Information**

We had a book value per share of \$23.64 and \$24.40 as of June 30, 2011 and December 31, 2010, respectively. As of June 30, 2011, our book value per share was based on approximately \$456.2 million in stockholders' equity and 19,296,835 shares of Common and Class B Common Stock outstanding. As of December 31, 2010, our book value per share was based on approximately \$448.3 million in stockholders' equity and 18,375,058 shares of Common and Class B Common Stock outstanding.

**Item 6. Exhibits**

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

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**SIGNATURE**

Pursuant to the requirements of the Securities and Exchange Act of 1934, I have duly caused this report to be signed on our behalf by the undersigned thereunto duly authorized.

August 3, 2011

Date

Stewart Information Services Corporation

Registrant

By: /s/ J. Allen Berryman

J. Allen Berryman, Executive Vice  
President,  
Chief Financial Officer, Secretary,  
Treasurer  
and Principal Financial Officer

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**INDEX TO EXHIBITS**

Exhibit

3.1	-	Amended and Restated Certificate of Incorporation of the Registrant, dated May 1, 2009 (incorporated by reference in this report from Exhibit 3.1 of the Current Report on Form 8-K filed May 5, 2009)
3.2	-	Certificate of Amendment to Amended and Restated Certificate of Incorporation of the Registrant, dated April 30, 2010 (incorporated by reference in this report from Exhibit 3.2 of the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010)
3.3	-	By-Laws of the Registrant, as amended March 13, 2000 (incorporated by reference in this report from Exhibit 3.2 of the Annual Report on Form 10-K for the year ended December 31, 2000)
4.1	-	Rights of Common and Class B Common Stockholders (incorporated by reference to Exhibits 3.1 and 3.2 hereto)
4.2	-	Indenture related to 6.0% Convertible Senior Notes due 2014, dated as of October 15, 2009, by and between the Registrant, the Guarantors party thereto, and Wells Fargo Bank, N.A., as trustee (incorporated by reference from Exhibit 4.1 to the Current Report on Form 8-K filed October 15, 2009)
4.3	-	Form of 6.0% Convertible Senior Note due 2014 (incorporated by reference from Exhibit 4.2 to the Current Report on Form 8-K filed October 15, 2009)
31.1	*	- Certification of Co-Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	*	- Certification of Co-Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.3	*	- Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	*	- Certification of Co-Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	*	- Certification of Co-Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.3	*	- Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	**	- XBRL Instance Document
101.SCH	**	- XBRL Taxonomy Extension Schema Document
101.CAL	**	- XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF \*\* - XBRL Taxonomy Extension Definition Linkbase Document

101.LAB \*\* - XBRL Taxonomy Extension Label Linkbase Document

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Exhibit

101.PRE \*\* - XBRL Taxonomy Extension Presentation Linkbase Document

\* Filed herewith

\*\* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 and 12 of the Securities Act of 1933, are deemed not filed for purposes of Section 18 of the securities Exchange Act of 1934 and otherwise are not subject to liability under those sections.