

STEWART INFORMATION SERVICES CORP
Form 10-Q
August 06, 2018
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, 2018

or

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

For the transition period from _____ to _____

Commission file number 001-02658

STEWART INFORMATION SERVICES CORPORATION

(Exact name of registrant as specified in its charter)

Delaware 74-1677330

(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

1980 Post Oak Blvd., Houston TX 77056

(Address of principal executive offices) (Zip Code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes 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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Emerging growth company (Do not check if smaller reporting company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

On August 1, 2018, there were 23,744,381 outstanding shares of the issuer's Common Stock, \$1 par value per share.

FORM 10-Q QUARTERLY REPORT
QUARTER ENDED JUNE 30, 2018
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As used in this report, “we,” “us,” “our,” “Registrant,” the “Company” and “Stewart” mean Stewart Information Services Corporation and our subsidiaries, unless the context indicates otherwise.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(\$000 omitted, except per share)			
Revenues				
Title revenues:				
Direct operations	224,240	231,662	409,752	419,091
Agency operations	247,257	234,407	484,111	467,756
Ancillary services	13,732	15,118	25,563	32,422
Operating revenues	485,229	481,187	919,426	919,269
Investment income	5,247	4,941	9,951	9,613
Investment and other gains (losses) – net	2,393	(676)	722	(389)
	492,869	485,452	930,099	928,493
Expenses				
Amounts retained by agencies	203,793	192,558	399,000	383,733
Employee costs	146,278	139,346	285,101	279,131
Other operating expenses	85,953	88,786	166,220	167,103
Title losses and related claims	18,697	24,462	37,678	45,163
Depreciation and amortization	6,154	6,441	12,388	12,819
Interest	673	712	1,646	1,529
	461,548	452,305	902,033	889,478
Income before taxes and noncontrolling interests	31,321	33,147	28,066	39,015
Income tax expense	5,602	10,993	4,307	10,850
Net income	25,719	22,154	23,759	28,165
Less net income attributable to noncontrolling interests	3,342	3,586	5,161	5,508
Net income attributable to Stewart	22,377	18,568	18,598	22,657
Net income	25,719	22,154	23,759	28,165
Other comprehensive (loss) income, net of taxes:				
Foreign currency translation adjustments	(4,038)	3,204	(5,630)	4,529
Change in net unrealized gains and losses on investments	(2,428)	355	(10,434)	2,822
Reclassification adjustment for net gains included in net income	(231)	(94)	(480)	(461)
Other comprehensive (loss) income, net of taxes:	(6,697)	3,465	(16,544)	6,890
Comprehensive income	19,022	25,619	7,215	35,055
Less net income attributable to noncontrolling interests	3,342	3,586	5,161	5,508
Comprehensive income attributable to Stewart	15,680	22,033	2,054	29,547
Basic average shares outstanding (000)	23,546	23,444	23,527	23,438
Basic earnings per share attributable to Stewart	0.95	0.79	0.79	0.97
Diluted average shares outstanding (000)	23,625	23,620	23,607	23,613
Diluted earnings per share attributable to Stewart	0.95	0.79	0.79	0.96

See notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED BALANCE SHEETS

	As of June 30, 2018 (Unaudited) (\$000 omitted)	As of December 31, 2017
Assets		
Cash and cash equivalents	121,128	150,079
Short-term investments	23,642	24,463
Investments in debt and equity securities, at fair value	673,333	709,355
Receivables:		
Premiums from agencies	30,242	27,903
Trade and other	50,282	51,299
Income taxes	2,477	1,267
Notes	3,088	3,203
Allowance for uncollectible amounts	(4,842)	(5,156)
	81,247	78,516
Property and equipment, at cost:		
Land	3,991	3,991
Buildings	22,806	22,849
Furniture and equipment	233,154	226,461
Accumulated depreciation	(193,128)	(186,279)
	66,823	67,022
Title plants, at cost	74,237	74,237
Investments on equity method basis	8,985	9,202
Goodwill	242,736	231,428
Intangible assets, net of amortization	11,138	9,734
Deferred tax assets	4,222	4,186
Other assets	50,408	47,664
	1,357,899	1,405,886
Liabilities		
Notes payable	107,657	109,312
Accounts payable and accrued liabilities	94,057	117,740
Estimated title losses	475,460	480,990
Deferred tax liabilities	14,488	19,034
	691,662	727,076
Contingent liabilities and commitments		
Stockholders' equity		
Common Stock and additional paid-in capital	184,301	184,026
Retained earnings	499,656	491,698
Accumulated other comprehensive (loss) income:		
Net unrealized investment (losses) gains on investments available-for-sale	(6,336)	7,526
Foreign currency translation adjustments	(14,647)	(8,373)
Treasury stock – 352,161 common shares, at cost	(2,666)	(2,666)
Stockholders' equity attributable to Stewart	660,308	672,211
Noncontrolling interests	5,929	6,599
Total stockholders' equity (23,744,939 and 23,719,522 shares outstanding)	666,237	678,810
	1,357,899	1,405,886

See notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Six Months Ended	
	June 30,	
	2018	2017
	(\$000 omitted)	
Reconciliation of net income to cash provided by operating activities:		
Net income	23,759	28,165
Add (deduct):		
Depreciation and amortization	12,388	12,819
Provision for bad debt	69	634
Investment and other (gains) losses – net	(722)	389
Amortization of net premium on investments available-for-sale	3,116	3,421
Payments for title losses in excess of provisions	(1,175)	(467)
Adjustment for insurance recoveries of title losses	1,448	793
Increase in receivables – net	(4,363)	(9,792)
Increase in other assets – net	(2,626)	(6,526)
Decrease in payables and accrued liabilities – net	(26,326)	(18,868)
Change in net deferred income taxes	(457)	2,329
Net income from equity investees	(768)	(977)
Dividends received from equity investees	985	1,237
Stock-based compensation expense	1,979	3,372
Other – net	60	2
Cash provided by operating activities	7,367	16,531
Investing activities:		
Proceeds from sales of investments in securities	25,722	49,655
Proceeds from matured investments in debt securities	10,355	22,834
Purchases of investments in securities	(26,220)	(88,381)
Net sales (purchases) of short-term investments	221	(182)
Purchases of property and equipment, and real estate – net	(5,690)	(9,328)
Cash paid for acquisition of businesses	(11,978)	(18,080)
Other – net	458	410
Cash used by investing activities	(7,132)	(43,072)
Financing activities:		
Payments on notes payable	(5,993)	(17,917)
Proceeds from notes payable	26	25,897
Distributions to noncontrolling interests	(5,751)	(5,300)
Repurchases of common stock	(672)	—
Cash dividends paid	(14,127)	(14,065)
Payment of contingent consideration related to an acquisition	—	(1,298)
Purchase of remaining interest in consolidated subsidiary	(1,112)	(1,013)
Cash used by financing activities	(27,629)	(13,696)
Effects of changes in foreign currency exchange rates	(1,557)	1,670
Decrease in cash and cash equivalents	(28,951)	(38,567)
Cash and cash equivalents at beginning of period	150,079	185,772
Cash and cash equivalents at end of period	121,128	147,205

See notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENT OF EQUITY (UNAUDITED)

	Common Stock (\$1 par value) (\$000 omitted)	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Treasury stock	Noncontrolling interests	Total
Balances at December 31, 2017	24,072	159,954	491,698	(847)	(2,666)	6,599	678,810
Cumulative effect adjustments on adoption of new accounting standards (Note 1-D)	—	—	3,592	(3,592)	—	—	—
Net income attributable to Stewart	—	—	18,598	—	—	—	18,598
Dividends on Common Stock (\$0.60 per share)	—	—	(14,232)	—	—	—	(14,232)
Stock-based compensation and other	42	1,937	—	—	—	—	1,979
Stock repurchases	(17)	(655)	—	—	—	—	(672)
Purchase of remaining interest in consolidated subsidiary	—	(1,032)	—	—	—	(80)	(1,112)
Net change in unrealized gains and losses on investments, net of taxes	—	—	—	(10,434)	—	—	(10,434)
Net realized gain reclassification, net of taxes	—	—	—	(480)	—	—	(480)
Foreign currency translation adjustments, net of taxes	—	—	—	(5,630)	—	—	(5,630)
Net income attributable to noncontrolling interests	—	—	—	—	—	5,161	5,161
Distributions to noncontrolling interests	—	—	—	—	—	(5,751)	(5,751)
Balances at June 30, 2018	24,097	160,204	499,656	(20,983)	(2,666)	5,929	666,237

See notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1

Interim financial statements. The financial information contained in this report for the three and six months ended June 30, 2018 and 2017, and as of June 30, 2018, 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, 2017.

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.

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. Restrictions on cash and investments. The Company maintains investments in accordance with certain statutory requirements for the funding of statutory premium reserves. Statutory reserve funds, which approximated \$482.4 million and \$490.8 million at June 30, 2018 and December 31, 2017, respectively, are required to be fully funded and invested in high-quality securities and short-term investments. Statutory reserve funds are not available for current claim payments, which must be funded from current operating cash flow. In addition, included within cash and cash equivalents are statutory reserve funds of approximately \$13.6 million and \$14.2 million at June 30, 2018 and December 31, 2017, respectively. Although these cash statutory reserve funds are not restricted or segregated in depository accounts, they are required to be held pursuant to state statutes. If the Company fails to maintain minimum investments or cash and cash equivalents sufficient to meet statutory requirements, the Company may be subject to fines or other penalties, including potential revocation of its business license. These funds are not available for any other purpose. In the event that insurance regulators adjust the determination of the statutory premium reserves of the Company's title insurers, these restricted funds as well as statutory surplus would correspondingly increase or decrease.

D. Cumulative effect adjustments on adoption of new accounting standards. In February 2018, the Financial Accounting Standards Board (FASB) issued ASU 2018-02, Income Statement - Reporting Comprehensive Income, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which amended its standard on comprehensive income to provide a one-time option for an entity to reclassify the stranded tax effects of the Tax Cuts and Jobs Act (the 2017 Act) that was passed in December 2017 from accumulated other comprehensive income/loss (AOCI) directly to retained earnings. The stranded tax effects result from the remeasurement of deferred tax assets and liabilities which were originally recorded in comprehensive income but whose remeasurement is reflected in the income statement. The Company adopted ASU 2018-02 effective on January 1, 2018 and reclassified \$1.0 million of net tax expense from AOCI to retained earnings in the consolidated statement of equity.

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, which, among others, (i) required equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income, (ii) simplified the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; (iii) eliminated the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet;

and (iv) required separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements. The Company adopted ASU 2016-01 effective on January 1, 2018, which resulted in a reclassification of the outstanding net unrealized investment gains, net of taxes, of \$4.6 million relating to investments in equity securities previously carried in AOCI to retained earnings in the consolidated statement of equity.

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E. Recent significant accounting pronouncement. In February 2016, the FASB issued ASU 2016-02, Leases, which updated the current guidance related to leases. The new guidance includes the requirement for the lessee to recognize in the balance sheet a liability equal to the present value of contractual lease payments with terms of more than twelve months and a right-of-use asset representing the right to use the underlying asset for the lease term. Disclosures will be required by lessees to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. This ASU is effective for annual and interim periods beginning after December 15, 2018 and early adoption is allowed. The Company expects to adopt ASU 2016-02 on January 1, 2019 using the modified retrospective method of adoption. The Company expects the adoption of ASU 2016-02 will result in material increases in the assets and liabilities reported on its consolidated balance sheets as indicated by the approximately \$167.1 million of undiscounted future minimum lease payments with terms of more than twelve months as of December 31, 2017 (as disclosed in Note 16 of the Company's consolidated financial statements included in the Company's 2017 Annual Report on Form 10-K). The Company expects the new ASU will likely have an insignificant impact on its consolidated statements of operations and cash flows. The Company is currently in the process of system implementation and data migration and expects the transition to be completed during the fourth quarter 2018.

F. Merger Agreement. On March 18, 2018, the Company entered into an Agreement and Plan of Merger (the Merger Agreement) with Fidelity National Financial, Inc., a Delaware corporation (FNF), A Holdco Corp., a Delaware corporation and a wholly-owned direct subsidiary of FNF (Merger Sub I), and S Holdco LLC, a Delaware limited liability company and a wholly-owned direct subsidiary of FNF (Merger Sub II and, together with Merger Sub I, the Merger Subs). Upon the terms and subject to the conditions set forth in the Merger Agreement, at the Effective Time (as defined below), Merger Sub I will merge with and into the Company (Merger I), with the Company surviving Merger I as a direct wholly-owned subsidiary of FNF, and at the Subsequent Effective Time (as defined in the Merger Agreement), the Company will merge with and into Merger Sub II (Merger II and, together with Merger I, the Mergers), with Merger Sub II surviving Merger II as a direct wholly-owned subsidiary of FNF.

Subject to the terms and conditions of the Merger Agreement, at the effective time of Merger I (the Effective Time, each share of the Company's Common Stock outstanding immediately prior to the Effective Time (other than (i) shares owned by the Company, its subsidiaries, FNF or the Merger Subs and (ii) shares in respect of which appraisal rights have been properly exercised and perfected under Delaware law) will be converted into the right to receive cash consideration of \$25.00 and 0.6425 shares of FNF common stock, par value \$0.0001 per share (FNF Common Stock), subject to potential adjustment as described below. Pursuant to the terms of the Merger Agreement, the Company's stockholders have the option to elect to receive the merger consideration in all cash (the Cash Election Consideration), all FNF Common Stock (the Stock Election Consideration) or a mix of 50% cash and 50% FNF Common Stock (the Mixed Election Consideration), subject to pro-rata reductions to the extent either the election for the Cash Election Consideration or the election for the Stock Election Consideration is oversubscribed. Stockholders that elect to receive the Cash Election Consideration will receive is \$50.00 per share, subject to potential adjustment as described below and proration to the extent the cash option is oversubscribed. The Stock Election Consideration and the stock portion of the Mixed Election Consideration will be calculated using a fixed exchange ratio that is based on the average of the volume weighted average prices of FNF Common Stock for each of the twenty (20) trading days prior to the signing of the Merger Agreement, or \$38.91 (the Parent Share Price). The exchange ratio for the Stock Election Consideration will be equal to 1.2850 shares of FNF Common Stock per share of Common Stock (the Exchange Ratio), subject to potential adjustment described below and proration to the extent the stock option is oversubscribed.

Under the terms of the Merger Agreement, if the combined company is required to divest assets or businesses with 2017 annual revenues in excess of \$75 million in order to receive required regulatory approvals (up to a cap of \$225 million of 2017 annual revenues), the per share purchase price will be adjusted downwards on a sliding scale between such amounts of divestitures up to a maximum reduction of \$4.50 in value in the event that businesses or assets with 2017 annual revenues of \$225 million are divested, with such adjustment to consist of (i) in the case shares of Common Stock with respect to which Cash Election Consideration has been elected, a reduction of the amount of cash

paid in respect of each share, (ii) in the case shares of Common Stock with respect to which Stock Election Consideration has been elected, a reduction in the Exchange Ratio based on the Parent Share Price, and (iii) in the case of shares of Common Stock with respect to which Mixed Election Consideration has been elected, a reduction in both the amount of cash and the Exchange Ratio to be paid to the holders of such shares, with 50% of the aggregate value of such reduction to consist of a reduction of the cash consideration and 50% of the aggregate value of such reduction to consist of a reduction in the Exchange Ratio based on the Parent Share Price.

The consummation of the Mergers, which is expected during the first or second quarter of 2019, is subject to the satisfaction or waiver of customary conditions, including, among other things, (i) the adoption of the Merger Agreement by the holders of a majority of the outstanding shares of Common Stock entitled to vote on the Mergers (the Company Stockholder Approval), (ii) the absence of any injunction or court or other governmental order (with respect to applicable antitrust or insurance laws, solely with respect to the Required Antitrust Regulatory Filings/Approvals and the Required Insurance Regulatory Filings/Approvals (each as defined in the Merger Agreement)) enjoining, prohibiting or rendering illegal the consummation of the Mergers, (iii) obtaining certain Required Antitrust Regulatory Filings/Approvals, (iv) obtaining certain Required Insurance Regulatory Filings/Approvals, (v) the Securities and Exchange Commission (SEC) declaring the Registration Statement (as defined in the Merger Agreement) on Form S-4 effective, (vi) the shares of FNF Common Stock to be issued in the Mergers having been approved for listing on the New York Stock Exchange, (vii) the representations and warranties made by each of the Company and FNF being true at and as of the Closing Date (as defined in the Merger Agreement), subject to the materiality standards contained in the Merger Agreement, (viii) the performance, in all material respects, by each of the Company, FNF and the Merger Subs of all of their respective obligations under the Merger Agreement and (ix) no Company Material Adverse Effect or Parent Material Adverse Effect (each as defined in the Merger Agreement) having occurred since the signing of the Merger Agreement.

The Merger Agreement contains certain customary representations, warranties and covenants made by the Company and FNF. The Merger Agreement also contains customary covenants for each of the parties, including the obligation for the parties to refrain from taking specified actions without the consent of the other party, and, in the case of the Company, conduct its business in the ordinary course and use commercially reasonable efforts to preserve intact its business organizations and relationships with third parties. Under the Merger Agreement, each of the Company and FNF has agreed to use its reasonable best efforts to take all actions and to do all things necessary or advisable under applicable law to consummate the Mergers, including preparing and filing as promptly as practicable with any governmental authority or other third party all documentation to effect all necessary filings, notices, petitions, statements, registrations, submissions of information, applications and other documents and obtaining and maintaining all approvals, consents, registrations, permits, authorizations and other confirmations required to be obtained from any governmental authority or other third party that are necessary, proper or advisable to consummate the transactions contemplated by this Agreement. Notwithstanding such obligation, in connection with obtaining any required regulatory approval, (a) FNF is not required to sell, divest, dispose of, license or hold separate (i) title plants and rights to title plants, businesses, product lines or assets to the extent that such title plants, rights to title plants, businesses, product lines or assets generated 2017 revenues in excess of \$225 million in the aggregate, or (ii) any of its own brands in full and (b) FNF and its affiliates are not required to litigate in order to avoid or have terminated any legal restraint that would prevent the Mergers from being consummated.

The Merger Agreement contains certain customary termination rights in favor of either the Company or FNF, which are exercisable (i) by mutual consent, (ii) upon the failure to complete the Mergers by March 18, 2019 (the End Date), subject to certain exceptions and subject to up to two (2) extensions of up to three (3) months each upon the election of either the Company or FNF if, as of such date, all closing conditions (other than the receipt of the Required Antitrust Regulatory Filings/Approvals, the receipt of the Required Insurance Regulatory Filings/Approvals and the absence of any law or court or other governmental order relating thereto) having been met or being capable of being satisfied as of such time, (iii) in the event of a final and non-appealable law or order that prohibits the consummation of the Mergers or (iv) if the Company's stockholders do not vote to approve the Mergers.

The Merger Agreement contains certain customary termination rights in favor of the Company, which are exercisable (i) for a breach of any representation, warranty, covenant or agreement made by FNF under the Merger Agreement that would result in failure to satisfy a closing condition (subject to certain cure periods) or (ii) if, prior to the Company Stockholder Approval being obtained, the Company's board of directors authorizes the Company to enter into, and the Company enters into, an alternative acquisition agreement in connection with a superior proposal. Under the Merger Agreement, the Company will be obligated to pay a termination fee of \$33 million to FNF if the Merger

Agreement is terminated due to the Company's board of directors changing its recommendation or if the Company terminates the Merger Agreement to enter into an agreement for a superior proposal.

The Merger Agreement also contains certain customary termination rights in favor of FNF. If the Merger Agreement is terminated due to (i) the failure to complete the Mergers by the End Date because of a failure to obtain the Required Antitrust Regulatory Filings/Approvals or Required Insurance Regulatory Filings/Approvals, and all other closing conditions have been or are capable of being satisfied at the time of such termination, or (ii) an injunction or governmental or other court order enjoining, prohibiting or rendering illegal the consummation of the Mergers that is based on the failure to obtain the Required Antitrust Regulatory Filings/Approvals or Required Insurance Regulatory Filings/Approvals, then FNF will be obligated to pay a reverse termination fee of \$50 million to the Company.

The Merger Agreement was included as Exhibit 2.1 to the Form 8-K filed with the SEC on March 19, 2018.

NOTE 2

Revenues. The Company's operating revenues, summarized by type, are as follows:

	Three Months Ended June 30, 2018		Six Months Ended June 30, 2018	
	2018	2017	2018	2017
	(\$000 omitted)		(\$000 omitted)	
Title insurance premiums:				
Direct	158,947	159,488	291,708	290,489
Agency	247,257	234,407	484,111	467,756
Escrow fees	35,468	39,447	63,335	72,210
Search, abstract and valuation services	25,114	28,030	46,901	56,200
Other revenues	18,443	19,815	33,371	32,614
	485,229	481,187	919,426	919,269

Direct premiums - Premiums from title insurance policies directly issued or issued by affiliate offices are recognized at the time of the closing of the related real estate transaction.

Agency premiums - Premiums from title insurance policies written by independent agencies (agencies) are recognized when the policies are reported to the Company. In addition, where reasonable estimates can be made, the Company accrues for policies issued but not reported until after period end. The Company believes that reasonable estimates can be made when recent and consistent policy issuance information is available. Estimates are based on historical reporting patterns and other information obtained about agencies, as well as current trends in direct operations and in the title industry. In this accrual, future transactions are not being estimated. The Company is estimating revenues on policies that have already been issued by agencies but not yet reported to or received by the Company. The Company has consistently followed the same basic method of estimating unreported policy revenues for more than 10 years.

Escrow fees - An escrow is a transaction pursuant to an agreement of a buyer, seller, borrower, or lender wherein an impartial third party, such as the Company, acts in a fiduciary capacity on behalf of the parties in accordance with the terms of such agreement in order to accomplish the directions stated therein. Services provided include, among others, acting as escrow or other fiduciary agent, obtaining releases, and conducting the actual closing or settlement. Escrow fees are recognized upon closing of the escrow, which is generally at the same time of the closing of the related real estate transaction.

Search, abstract and valuation services - These services are primarily related to establishing the ownership, legal status and valuation of the property in a real estate transaction. In these cases, the Company does not issue a title insurance policy or perform duties of an escrow agent. Revenues from these services are recognized upon delivery of the service to the customer.

Other revenues - Other revenues consist primarily of fees related to tax-deferred property exchange services, information technology products related to real property records and closing settlement services, income from equity investees, and other services performed to facilitate the closing of real estate transactions. For those products and services that are delivered at a point in time, the related revenue is recognized upon delivery based on the unit price of the product or service. For those products and services where delivery occurs over time, the related revenue is recognized ratably over the duration of the contract.

NOTE 3

Investments in debt and equity securities. The total fair values of the Company's investments in debt and equity securities are detailed below:

June 30, December
2018 31, 2017
(\$000 omitted)

Investments in:

Debt securities	637,883	671,441
Equity securities	35,450	37,914
	673,333	709,355

Investments in debt securities are classified as available-for-sale and the net unrealized gains and losses on such investments, net of applicable deferred taxes, are included as a component of AOCI within stockholders' equity. As a result of the Company's adoption of ASU 2016-01 (as discussed in Note 1-D), fair value changes relating to investments in equity securities are recognized as part of investment and other (losses) gains - net in the statement of operations beginning on January 1, 2018. Previously, the investments in equity securities, which consist of common stocks and master limited partnership interests, were accounted for similar to investments in debt securities.

As of June 30, 2018 and December 31, 2017, the net unrealized investment gains relating to investments in equity securities held were \$4.9 million and \$5.8 million, respectively.

The amortized costs and fair values of investments in debt securities are as follows:

	June 30, 2018		December 31, 2017	
	Amortized costs	Fair values	Amortized costs	Fair values
	(\$000 omitted)			
Municipal	62,837	62,831	71,581	72,669
Corporate	347,379	342,595	351,477	357,933
Foreign	222,740	219,932	229,750	228,237
U.S. Treasury Bonds	12,947	12,525	12,838	12,602
	645,903	637,883	665,646	671,441

Foreign debt securities consist of Canadian government and corporate bonds, United Kingdom treasury bonds, and Mexican government bonds.

Gross unrealized gains and losses on investments in debt securities are as follows:

	June 30, 2018		December 31, 2017	
	Gains	Losses	Gains	Losses
	(\$000 omitted)			
Municipal	463	469	1,263	175
Corporate	2,372	7,156	6,953	497
Foreign	1,320	4,128	1,742	3,255
U.S. Treasury Bonds	1	423	—	236
	4,156	12,176	9,958	4,163

Debt securities as of June 30, 2018 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	55,856	55,917
After one year through five years	359,043	355,605
After five years through ten years	190,383	186,494
After ten years	40,621	39,867
	645,903	637,883

Gross unrealized losses on investments in debt securities 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 at June 30, 2018, were:

	Less than 12 months		More than 12 months		Total	
	Losses	Fair values	Losses	Fair values	Losses	Fair values
	(\$000 omitted)					
Municipal	198	21,849	271	5,756	469	27,605
Corporate	6,916	268,573	240	4,755	7,156	273,328
Foreign	897	73,483	3,231	88,709	4,128	162,192
U.S. Treasury Bonds	157	5,732	266	6,686	423	12,418
	8,168	369,637	4,008	105,906	12,176	475,543

The number of specific debt investment holdings held in an unrealized loss position as of June 30, 2018 was 313. Of these securities, 64 securities were in unrealized loss positions for more than 12 months. Since the Company does not intend to sell and will more likely than not maintain each investment security until its maturity or anticipated recovery, and no significant credit risk is deemed to exist, these investments are not considered as other-than-temporarily impaired. The Company believes its investment portfolio is diversified and expects no material loss to result from the failure to perform by issuers of the debt securities it holds. Investments made by the Company are not collateralized.

Gross unrealized losses on investments in debt securities 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 at December 31, 2017, were:

	Less than 12 months		More than 12 months		Total	
	Losses	Fair values	Losses	Fair values	Losses	Fair values
	(\$000 omitted)					
Municipal	58	17,023	117	5,784	175	22,807
Corporate	386	81,632	111	4,926	497	86,558
Foreign	1,528	116,130	1,727	39,031	3,255	155,161
U.S. Treasury Bonds	53	5,830	183	6,772	236	12,602
	2,025	220,615	2,138	56,513	4,163	277,128

NOTE 4

Fair value measurements. The Fair Value Measurements and Disclosures Topic (Topic 820) of the FASB Accounting Standards Codification (ASC) defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal, or most advantageous, market for the asset or liability in an orderly transaction between market participants at the measurement date. Topic 820 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs when possible.

The three levels of inputs used to measure fair value are as follows:

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

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

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

As of June 30, 2018, financial instruments measured at fair value on a recurring basis are summarized below:

	Level 1	Level 2	Fair value measurements
	(\$000 omitted)		
Investments in securities:			
Debt securities:			
Municipal	–62,831	62,831	
Corporate	–342,595	342,595	
Foreign	—		