

STEWART INFORMATION SERVICES CORP

Form 11-K

June 23, 2006

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**Form 11-K**

þ **Annual Report pursuant to Section 15(d) of The Securities Exchange Act of 1934.  
For the fiscal year ended December 31, 2005.**

**or**

o **Transition Report pursuant to Section 15(d) of The Securities Exchange Act of 1934.  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_.**

Commission file number 1-02658

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

Stewart Salary Deferral Plan

1980 Post Oak Blvd

Houston, TX 77056-3899

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

Stewart Information Services Corporation

(a Delaware Corporation)

74-1677330

1980 Post Oak Blvd

Houston, Texas 77056-3899

Telephone Number Area Code (713) 625-8100

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**Required Information**

The following financial statements prepared in accordance with the financial reporting requirements of the Employee Retirement Income Security Act of 1974, signature and exhibits are filed for the Stewart Salary Deferral Plan:

**Financial Statements and Supplemental Schedule**

Report of Independent Registered Public Accounting Firm

Statements of Net Assets Available for Benefits December 31, 2005 and 2004

Statement of Changes in Net Assets Available for Benefits Year ended December 31, 2005

Notes to Financial Statements December 31, 2005 and 2004

Supplemental Schedule H, Line 4i Schedule of Assets (Held at End of Year) December 31, 2005

**Signature**

**Exhibit**

Consent of Mir Fox & Rodriguez, P.C. (Exhibit 23.1)

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**STEWART SALARY DEFERRAL PLAN**  
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<u>Consent of Mir-Fox &amp; Rodriguez, P.C.</u>	
Schedules not listed above are omitted because of the absence of conditions under which they are required under the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.	

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**Report of Independent Registered Public Accounting Firm**

To the Administrative Committee

Stewart Salary Deferral Plan:

We have audited the accompanying statements of net assets available for benefits of the Stewart Salary Deferral Plan (the Plan ) as of December 31, 2005 and 2004, and the related statement of changes in net assets available for benefits for the year ended December 31, 2005. These financial statements are the responsibility of the Plan s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Plan is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2005 and 2004, and the changes in its net assets available for benefits for the year ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule H, line 4i schedule of assets (held at end of year) as of December 31, 2005, is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental schedule is the responsibility of the Plan s management. The supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ Mir Fox & Rodríguez, P.C.

Houston, Texas

June 23, 2006

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**STEWART SALARY DEFERRAL PLAN**  
 Statements of Net Assets Available for Benefits  
 December 31, 2005 and 2004

	<b>2005</b>	<b>2004</b>
<b>ASSETS:</b>		
Investments, at fair value	\$ 197,124,526	\$ 161,802,619
Noninterest-bearing cash	47,732	
Receivables -		
Company contributions, net of forfeitures	119,880	
Plan participants' contributions	752,246	
Plan participants' loan repayments	78,420	
Accrued income on investments	680,500	
 Total receivables	 1,631,046	
 Total assets	 198,803,304	 161,802,619
 <b>LIABILITIES:</b>		
Securities purchases payable	944,293	
Excess contribution refunds	300,488	100,058
 Total liabilities	 1,244,781	 100,058
 Total net assets available for benefits	 \$ 197,558,523	 \$ 161,692,561

See accompanying notes to financial statements.

**Table of Contents****STEWART SALARY DEFERRAL PLAN**Statement of Changes in Net Assets Available for Benefits  
Year ended December 31, 2005

## ADDITIONS TO NET ASSETS:

Contributions-	
Company, net of forfeitures	\$ 7,582,394
Plan participants	22,109,384
Rollovers	4,001,339
Total contributions	33,693,117
Net investment income-	
Dividends and capital gains	4,457,934
Interest	1,099,906
Net appreciation of investments	6,991,502
Total net investment income	12,549,342
Total additions to net assets	46,242,459

## DEDUCTIONS FROM NET ASSETS:

Benefits paid to participants	9,567,126
Excess contribution refunds	300,488
Transfers from the Plan	461,896
Administrative expenses	46,987
Total deductions from net assets	10,376,497

Net increase in net assets available for benefits 35,865,962

## NET ASSETS AVAILABLE FOR BENEFITS:

Beginning of year	161,692,561
End of year	\$ 197,558,523

See accompanying notes to financial statements.

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**STEWART SALARY DEFERRAL PLAN**

Notes to Financial Statements

December 31, 2005 and 2004

**(1) DESCRIPTION OF THE PLAN**

The Stewart Salary Deferral Plan (the Plan ) is a defined contribution plan adopted effective January 1, 1986 and sponsored by Stewart Title Guaranty Company ( STG ). STG is a wholly owned subsidiary of Stewart Information Services Corporation ( SISCO ). The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 ( ERISA ).

The Plan is administered by STG (the Plan Administrator ) and Wells Fargo Bank of Texas, N.A., the Plan s trustee and record keeper ( Wells Fargo ). An administrative committee of executives (the Administrative Committee ) has been appointed by the Board of Directors of STG to assist with the responsibility for overseeing the operation of the Plan, including the monitoring of Wells Fargo.

The summary of significant provisions of the Plan presented below provides general information. Participants should refer to the Plan agreement for a more complete description of the Plan s provisions.

**(a) Employee Participation**

The Plan is made available to eligible employees of STG and its affiliates (collectively the Company ). All employees who have completed ninety days (90) of service and work a minimum number of hours, as defined by the Plan, are eligible to participate in the Plan.

**(b) Contributions**

Plan participants may defer up to fifty percent (50%) of considered compensation into the Plan, subject to certain limitations under the Internal Revenue Code (the IRC ). Highly compensated participants may be required to reduce the amount of pretax contributions in order to permit the Plan to satisfy the nondiscrimination requirements of Section 401(k) of the IRC. As of December 31, 2005 and 2004, excess contribution refunds were due to Plan participants in the amount of \$300,488 and \$100,058, respectively.

Participants who are age 50 or older before the close of the Plan year may elect to make a catch-up contribution, subject to certain limitations under the IRC.

The Company s matching contribution is currently equal to fifty cents for each one dollar of considered compensation contributed (other than catch-up contributions) up to a maximum of six percent (6%) of each participant s considered compensation, subject to a maximum defined by the Plan. The Company may utilize available forfeitures to offset matching contributions to the Plan. The Plan recorded \$5,730,559 for matching contributions, net of forfeitures of \$330,608, during 2005.

The Plan allows for a Company discretionary contribution as determined annually by STG s Board of Directors. The discretionary contribution, if any, is determined quarterly and allocated equally to all eligible participants quarterly, in accordance with the Plan s provisions.



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**STEWART SALARY AND DEFERRAL PLAN**

Notes to Financial Statements

December 31, 2005 and 2004

The Company may utilize available forfeitures to offset discretionary contributions to the Plan. The Plan recorded \$1,851,835 for discretionary contributions, net of forfeitures of \$22,152 during 2005.

Employees are permitted to rollover pre-tax amounts with earnings held in other qualified plans or conduit individual retirement accounts (IRAs) into the Plan, as specified in the Plan document.

**(c) Participant Accounts**

Each participant's account is credited with the elected deferral amount, the Company's employer matching contribution, a Company discretionary contribution, if any, and an allocation of Plan earnings. Net investment income (loss) is allocated to participants' accounts daily based on the proportion that each participant's account balance bears to the participant account balances in each investment fund.

**(d) Investment Options**

Employees may elect to have their contributions allocated among various investment options offered by the Plan. The Plan currently offers fourteen mutual funds, one common collective trust fund, and the SISCO Stock Fund as investment options for participants. Certain limitations apply under the Plan.

The SISCO Stock Fund is invested primarily in SISCO common stock. The remaining portion of the fund is invested in the Wells Fargo Short Term Investment Fund G, a common collective trust fund, which is not available for investment allocation. Wells Fargo is entitled to exercise voting rights attributable to SISCO common stock allocated to accounts of participants and beneficiaries in accordance with the Plan.

**(e) Vesting and Payment of Benefits**

Participants in the Plan prior to January 1, 1989, are eligible to receive payment of the total account balance upon normal retirement at age sixty-five (65), death, disability or other termination of employment.

Participants in the Plan on or after January 1, 1989 are eligible to receive payment of the total account balance upon normal retirement at age sixty-five (65), death or disability. Upon other termination of employment, participants are eligible to receive payment of the total account balance if they have completed three (3) years of service. Participants who have completed less than three (3) years of service are eligible to receive payment of all employee contributions, but forfeit Company matching and discretionary contributions and related earnings on such contributions.

Forfeited amounts may be used to reduce future Company matching or discretionary contributions, to pay administrative expenses of the Plan, or to reinstate former participant balances. During 2005, available forfeitures in the amount of \$352,760 were utilized to reduce Company contributions.

Distributions may be paid in a lump sum or in installments subject to the provisions of the Plan. Direct rollovers from the Plan to an IRA or other qualified plan are permitted.

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**STEWART SALARY DEFERRAL PLAN**

Notes to Financial Statements

December 31, 2005 and 2004

There were no amounts allocated to withdrawing participants for amounts that have been processed and approved for payment prior to December 31, 2005 and 2004, but not yet paid as of that date.

**(f) Participant Loans**

A participant may borrow a minimum of \$1,000 up to a maximum amount equal to the lesser of \$50,000 or fifty percent (50%) of the vested account balance, subject to the Plan's provisions. The terms of the loan include interest at a commercially reasonable rate similar to the prime interest rate, as set quarterly by the Administrative Committee.

**(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(a) Basis of Accounting**

The accompanying financial statements are prepared using the accrual basis of accounting, except for the cash basis recording of benefits paid to participants. Loan administration fees and redemption fees are paid from Plan assets. Plan expenses not paid from Plan assets are paid by the Company.

**(b) Investment Valuation and Income**

Investments in mutual funds and common stock are stated at fair value as determined by quoted market price. Common collective trust funds are stated at the fair value of the underlying securities. Participant loans are valued at cost, which approximates fair value.

Purchases and sales of securities are recorded on a trade-date basis. Interest is recorded as earned and dividend and capital gain income is recorded on the ex-dividend date.

Realized gains (losses) on investments sold during the year and unrealized appreciation (depreciation) of investments held at year end are calculated using the historical cost method and are combined and presented as net appreciation of investments in the statement of changes in net assets available for Plan benefits.

**(c) Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

**Table of Contents****STEWART SALARY DEFERRAL PLAN**

Notes to Financial Statements

December 31, 2005 and 2004

**(d) Risks and Uncertainties**

The Plan invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term.

**(3) INVESTMENTS**

At December 31, 2005 and 2004, all investments of the Plan were participant-directed. The following table presents the Plan investments which exceed 5% of the Plan's net assets at year end:

	<b>2005</b>	<b>2004</b>
Wells Fargo Bond Index Fund N	\$ 15,242,311	\$ 13,950,542
Wells Fargo Advantage Treasury Plus Money Market Fund Service Class	20,931,946	18,027,704
Wells Fargo Advantage Asset Allocation Fund Admin Class	23,145,107	21,147,093
Wells Fargo Advantage Index Fund Admin Class	42,794,859	40,351,314
Dodge & Cox Stock Fund	19,361,278	12,467,605
Dreyfus Small Cap Stock Index Fund	11,589,445	9,587,189
Fidelity Advisor Diversified International Fund Class A	15,738,193	10,727,546
Stewart Information Services Corporation Common Stock	11,800,139	8,549,488

The following table presents net appreciation of investments for the year ended December 31, 2005 by investment type:

Mutual funds	\$ 5,355,700
Common collective trust funds	6,741
Common stock	1,629,061
Total net appreciation of investments	\$ 6,991,502

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**STEWART SALARY DEFERRAL PLAN**

Notes to Financial Statements

December 31, 2005 and 2004

**(4) RELATED-PARTY TRANSACTIONS**

Certain Plan investments are shares of mutual funds and common collective trust funds managed by Wells Fargo. Wells Fargo is the trustee as defined by the Plan and, therefore, these transactions qualify as party-in-interest transactions. Fees paid by the Plan to Wells Fargo for loan administration services and redemption fees totaled \$46,987 for the year ended December 31, 2005.

Certain Plan investments are shares of SISCO common stock, and therefore, these transactions qualify as party-in-interest transactions.

These transactions are covered by an exemption from the prohibited transaction provisions of ERISA and the IRC.

**(5) PLAN TERMINATION**

Although it has not expressed any intent to do so, the Plan Administrator has the right under the Plan to discontinue contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of Plan termination, the net assets would be allocated among the participants and beneficiaries of the Plan in accordance with the provisions of the Plan.

**(6) TAX STATUS**

The Plan received its latest favorable determination letter dated July 24, 2002, in which the Internal Revenue Service stated that the Plan, as then designed, was in compliance with the applicable requirements of the IRC. Although the Plan has been amended since receiving the determination letter, the Plan Administrator and the Plan's tax counsel believe that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC. Therefore, no provision for income taxes has been included in the Plan's financial statements.

**(7) TRANSFERS FROM THE PLAN**

STG sold its controlling interest in Stewart Title of Tucson (ST of Tucson) to Stewart Title & Trust of Phoenix, Inc. (ST of Phoenix) during 2004. In connection with the sale, the affected ST of Tucson employees became eligible to participate in the ST of Phoenix Retirement Plan. Accordingly, the Administrative Committee gave consent for the direct trustee-to-trustee transfer of participant balances of \$461,896 in February 2005 from the Plan to the ST of Phoenix Retirement Plan.

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Schedule H, Line 4i Schedule of Assets (Held at End of Year)  
December 31, 2005

Plan Sponsor Number: 74-0924290

Plan Number: 002

(a) Party- in- interest	(b) Identity of issuer, borrower, lessor, or similar party	(c) Description of investment including maturity date, rate of interest, collateral, par or maturity value	(d) Cost	(e) Current value
*	Wells Fargo Bank of Texas, N.A.	Bond Index Fund N	**	\$ 15,242,311
*	Wells Fargo Bank of Texas, N.A.	Advantage Treasury Plus Money Market Fund Service Class	**	20,931,946
*	Wells Fargo Bank of Texas, N.A.	Advantage Asset Allocation Fund Admin Class	**	23,145,107
*	Wells Fargo Bank of Texas, N.A.	Advantage Index Fund Admin Class	**	42,794,859
*	Wells Fargo Bank of Texas, N.A.	Advantage Outlook 2010 Fund Admin Class	**	3,757,848
*	Wells Fargo Bank of Texas, N.A.	Advantage Outlook 2020 Fund Admin Class	**	4,640,640
*	Wells Fargo Bank of Texas, N.A.	Advantage Outlook 2030 Fund Admin Class	**	3,130,315
*	Wells Fargo Bank of Texas, N.A.	Advantage Outlook 2040 Fund Admin Class	**	2,643,743
	AIM Distributors, Inc.	Small Cap Growth Fund Class A	**	3,067,496
	Dodge & Cox	Stock Fund	**	19,361,278
	Dreyfus Service Corp.	Small Cap Stock Index Fund	**	11,589,445
	Goldman, Sachs & Co.	Small Cap Value Fund	**	6,771,091
	Goldman, Sachs & Co.	Short Duration Government Fund Class A	**	2,461,281
	Janus Distributors, LLC	Adviser Forty Fund Class S (formerly Capital Appreciation Fund)	**	4,130,224
	Fidelity Management & Research Company	Advisor Diversified International Fund Class A	**	15,738,193
*	Stewart Information Services Corporation	Common Stock	**	11,800,139
*	Wells Fargo Bank of Texas, N.A.	Short Term Investment Fund G	**	603,334
*	Participant loans	Interest rates from 5.25% to 9.50%		5,315,276
		Total		\$ 197,124,526

\* A party-in-interest  
as defined by  
ERISA.

\*\* Cost information is  
not required as these  
assets are  
participant-directed.

See accompanying report of independent registered public accounting firm.

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**Signature**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Administrative Committee of the Stewart Salary Deferral Plan has duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: June 23, 2006

By: /s/ Nita Hanks

Nita Hanks, Chairperson Administrative  
Committee of the Stewart Salary Deferral Plan and  
Senior Vice President Employee Services

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**Exhibit Index**

Consent of Mir Fox & Rodríguez, P.C. (Exhibit 23.1)