

INVESTORS TITLE CO  
Form 10-Q  
August 02, 2010  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2010

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: 0-11774

INVESTORS TITLE COMPANY  
(Exact name of registrant as specified in its charter)

North Carolina  
(State of incorporation)

56-1110199  
(I.R.S. Employer Identification No.)

121 North Columbia Street, Chapel Hill, North Carolina 27514  
(Address of principal executive offices) (Zip Code)

(919) 968-2200  
(Registrant's telephone number, including area code)

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 (Section 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. (Check one): Large accelerated filer  Accelerated filer   
 Non-accelerated filer  Smaller reporting company

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(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

As of July 14, 2010, there were 2,284,909 common shares of the registrant outstanding.

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INVESTORS TITLE COMPANY  
AND SUBSIDIARIES

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## Item 1. Financial Statements

Investors Title Company and Subsidiaries  
Consolidated Balance Sheets  
As of June 30, 2010 and December 31, 2009  
(Unaudited)

	June 30, 2010	December 31, 2009
<b>Assets:</b>		
<b>Investments in securities:</b>		
Fixed maturities:		
Held-to-maturity, at amortized cost (fair value: 2010: \$0; 2009: \$2,000)	\$ -	\$ 2,000
Available-for-sale, at fair value (amortized cost: 2010: \$84,381,513; 2009: \$85,047,483)	89,134,390	88,801,186
Equity securities, available-for-sale, at fair value (cost: 2010: \$9,179,346; 2009: \$8,241,767)	11,553,523	11,854,301
Short-term investments	23,422,684	20,717,434
Other investments	2,239,326	2,307,220
Total investments	126,349,923	123,682,141
Cash and cash equivalents	5,247,678	8,733,221
Premiums and fees receivable, less allowance for doubtful accounts of \$1,239,000 and \$1,486,000 for 2010 and 2009, respectively	5,417,917	5,170,476
Accrued interest and dividends	1,163,874	1,122,806
Prepaid expenses and other assets	2,051,941	1,815,653
Property acquired in settlement of claims	158,129	175,476
Property, net	3,697,815	3,894,724
Current income taxes receivable	949,449	-
Deferred income taxes, net	561,860	1,833,207
<b>Total Assets</b>	<b>\$ 145,598,586</b>	<b>\$ 146,427,704</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities:</b>		
Reserves for claims	\$ 37,752,000	\$ 39,490,000
Accounts payable and accrued liabilities	8,494,940	9,008,337
Current income taxes payable	-	670,290
Total liabilities	46,246,940	49,168,627
<b>Commitments and Contingencies</b>		
<b>Stockholders' Equity:</b>		
Class A Junior Participating preferred stock (shares authorized 100,000; no shares issued)	-	-

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Common stock - no par value (shares  
 authorized 10,000,000;  
 2,284,909 and 2,285,289 shares issued and  
 outstanding as of June 30, 2010 and  
 December 31, 2009, respectively, excluding  
 291,676 shares for 2010 and 2009  
 of common stock held by the Company's  
 subsidiary)

	1	1
Retained earnings	94,777,437	92,528,818
Accumulated other comprehensive income	4,574,208	4,730,258
Total stockholders' equity	99,351,646	97,259,077
Total Liabilities and Stockholders' Equity	\$ 145,598,586	\$ 146,427,704

See notes to Consolidated Financial  
 Statements.

Investors Title Company and Subsidiaries  
Consolidated Statements of Income  
For the Three and Six Months Ended June 30, 2010 and 2009  
(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Revenues:				
Underwriting income:				
Premiums written	\$ 13,665,348	\$ 18,945,561	\$ 25,495,169	\$ 35,356,158
Less-premiums for reinsurance ceded	26,398	33,173	69,917	33,950
Net premiums written	13,638,950	18,912,388	25,425,252	35,322,208
Investment income - interest and dividends	915,852	960,454	1,822,474	1,950,089
Net realized gain (loss) on investments	325,780	9,995	350,930	(289,942 )
Other	1,338,184	1,737,722	2,317,521	3,320,613
Total Revenues	16,218,766	21,620,559	29,916,177	40,302,968
Operating Expenses:				
Commissions to agents	6,476,376	8,831,742	12,075,827	16,363,951
Provision for claims	112,415	2,751,814	1,424,819	4,798,940
Salaries, employee benefits and payroll taxes	4,345,961	4,529,066	8,830,273	9,667,242
Office occupancy and operations	978,822	1,208,140	2,067,227	2,306,722
Business development	352,365	329,011	626,661	591,828
Filing fees and taxes, other than payroll and income	147,277	185,204	292,699	342,255
Premium and retaliatory taxes	281,784	375,510	582,730	742,772
Professional and contract labor fees	338,794	337,290	703,872	651,989
Other	182,412	204,309	294,094	189,833
Total Operating Expenses	13,216,206	18,752,086	26,898,202	35,655,532
Income Before Income Taxes	3,002,560	2,868,473	3,017,975	4,647,436
Provision For Income Taxes	465,000	753,000	463,000	1,097,000
Net Income	\$ 2,537,560	\$ 2,115,473	\$ 2,554,975	\$ 3,550,436
Basic Earnings Per Common Share	\$ 1.11	\$ 0.92	\$ 1.12	\$ 1.55
Weighted Average Shares Outstanding - Basic	2,285,653	2,296,644	2,285,392	2,295,298
Diluted Earnings Per Common Share	\$ 1.11	\$ 0.92	\$ 1.11	\$ 1.54
Weighted Average Shares Outstanding - Diluted	2,293,199	2,296,644	2,293,232	2,300,017
Cash Dividends Paid Per Common Share	\$ 0.07	\$ 0.07	\$ 0.14	\$ 0.14

See notes to Consolidated Financial Statements.



Investors Title Company and Subsidiaries  
Consolidated Statements of Stockholders' Equity  
For the Six Months Ended June 30, 2010 and 2009  
(Unaudited)

	Common Stock Shares	Amount	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance, January 1, 2009	2,293,268	\$ 1	\$ 88,248,452	\$ 1,609,435	\$ 89,857,888
Net income			3,550,436		3,550,436
Dividends (\$.14 per share)			(321,385 )		(321,385 )
Shares of common stock repurchased and retired	(286 )		(8,511 )		(8,511 )
Stock options exercised	4,225		74,072		74,072
Share-based compensation expense			316,729		316,729
Amortization related to postretirement health benefits				7,392	7,392
Net unrealized gain on investments, net of tax				826,798	826,798
Balance, June 30, 2009	2,297,207	\$ 1	\$ 91,859,793	\$ 2,443,625	\$ 94,303,419
Balance, January 1, 2010	2,285,289	\$ 1	\$ 92,528,818	\$ 4,730,258	\$ 97,259,077
Net income			2,554,975		2,554,975
Dividends (\$.14 per share)			(319,944 )		(319,944 )
Stock options exercised	3,995		49,022		49,022
Share-based compensation expense			110,188		110,188
Repurchase of shares	(4,375 )		(145,622 )		(145,622 )
Amortization related to postretirement health benefits				7,579	7,579
Net unrealized loss on investments, net of tax				(163,629 )	(163,629 )
Balance, June 30, 2010	2,284,909	\$ 1	\$ 94,777,437	\$ 4,574,208	\$ 99,351,646

See notes to Consolidated Financial Statements.





Investors Title Company and Subsidiaries  
Consolidated Statements of Cash Flows  
For the Six Months Ended June 30, 2010 and 2009  
(Unaudited)

	2010	2009
<b>Operating Activities:</b>		
Net income	\$2,554,975	\$3,550,436
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	272,125	421,720
Amortization, net	167,243	140,438
Amortization of prior service cost	11,478	11,200
Share-based compensation expense related to stock options	110,188	316,729
(Decrease) increase in allowance for doubtful accounts on premiums receivable	(247,000 )	243,000
Net (gain) loss on disposals of property	(480 )	13,136
Net realized (gain) loss on investments and other assets	(350,930 )	289,942
Net earnings from other investments	(183,889 )	(881,715 )
Provision for claims	1,424,819	4,798,940
Provision for deferred income taxes	1,343,000	1,117,000
Changes in assets and liabilities:		
Increase in receivables and other assets	(308,000 )	(3,482,087)
(Increase) decrease in current income taxes receivable	(949,449 )	704,419
Decrease in accounts payable and accrued liabilities	(513,397 )	(2,961,482)
Decrease in current income taxes payable	(670,290 )	-
Payments of claims, net of recoveries	(3,162,819)	(4,453,940)
Net cash used in operating activities	(502,426 )	(172,264 )
<b>Investing Activities:</b>		
Purchases of available-for-sale securities	(9,874,722)	(2,910,021)
Purchases of short-term securities	(9,724,271)	(2,004,425)
Purchases of other investments	(51,143 )	(176,759 )
Proceeds from sales and maturities of available-for-sale securities	9,868,039	5,435,206
Proceeds from maturities of held-to-maturity securities	2,000	5,000
Proceeds from sales and maturities of short-term securities	7,019,021	2,602,754
Proceeds from sales and distributions of other investments	269,239	505,653
Purchases of property	(75,936 )	(69,925 )
Proceeds from the sale of property	1,200	6,166
Net cash (used in) provided by investing activities	(2,566,573)	3,393,649
<b>Financing Activities:</b>		
Repurchases of common stock	(145,622 )	(8,511 )
Exercise of options	49,022	74,072
Dividends paid	(319,944 )	(321,385 )
Net cash used in financing activities	(416,544 )	(255,824 )
Net (Decrease) Increase in Cash and Cash Equivalents	(3,485,543)	2,965,561
Cash and Cash Equivalents, Beginning of Period	8,733,221	5,155,046
Cash and Cash Equivalents, End of Period	\$5,247,678	\$8,120,607

Supplemental Disclosures:

Cash Paid (Received) During the Period for:

Income taxes, (refunds) payments, net	\$741,000	\$(724,000 )
Non cash net unrealized loss (gain) on investments, net of deferred tax benefit (provision) of \$75,554 and (\$458,708) for 2010 and 2009, respectively	\$163,629	\$(826,798 )

See notes to Consolidated Financial Statements.

INVESTORS TITLE COMPANY  
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2010

(Unaudited)

Note 1 - Basis of Presentation and Significant Accounting Policies

Reference should be made to the "Notes to Consolidated Financial Statements" of Investors Title Company's ("the Company") Annual Report on Form 10-K for the year ended December 31, 2009 for a complete description of the Company's significant accounting policies.

Principles of Consolidation – The accompanying unaudited consolidated financial statements include the accounts and operations of Investors Title Company and its subsidiaries (Investors Title Insurance Company, National Investors Title Insurance Company, Investors Title Exchange Corporation, Investors Title Accommodation Corporation, Investors Title Management Services, Inc., Investors Title Commercial Agency, LLC, Investors Capital Management Company, and Investors Trust Company), and have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in annual financial statements have been condensed or omitted. All intercompany balances and transactions have been eliminated in consolidation.

In the opinion of management, all adjustments considered necessary for a fair presentation of the financial position, results of operations and cash flows in the accompanying unaudited consolidated financial statements have been included. All such adjustments are of a normal recurring nature. Operating results for the quarter ended June 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

Use of Estimates and Assumptions – The preparation of the Company's consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions used.

Reclassification - Certain 2009 amounts have been reclassified to conform to the 2010 classifications. These reclassifications had no effect on net income or stockholders' equity as previously reported.

Subsequent Events - The Company has evaluated and concluded that there were no material subsequent events requiring adjustment to or disclosure in its consolidated financial statements.

Recently Issued Accounting Standards – In February 2010, the Financial Accounting Standards Board ("FASB") updated the reporting requirements for subsequent events to no longer include a date through which events have been evaluated. This update was effective immediately and did not have an impact on the Company's financial condition or results of operations.

In January 2010, the FASB updated the requirements for fair value measurements and disclosures to provide for additional disclosure related to transfers in and out of securities valuation hierarchy Levels 1 and 2, and to require companies to present Level 3 securities purchases, sales, issuances and settlement on a gross rather than net basis. Refer to Note 7 for a discussion of valuation hierarchy levels. The new disclosures are clarifications of existing disclosures and are effective for interim and annual reporting periods beginning after December 15, 2009, except that the disclosures requiring the presentation of Level 3 securities trading activity on a gross basis are effective for fiscal years beginning after December 15, 2010. This update did not have an impact on the Company's financial condition or results of operations.

In June 2009, the FASB changed the methodology used to determine whether or not an entity is a primary beneficiary with respect to a variable interest entity and introduced a requirement to reassess on an ongoing basis whether an entity is the primary beneficiary of a variable interest entity. This update was implemented January 1, 2010, and did not have an impact on the Company's financial condition or results of operations. As a result of this update, the Company evaluated its investments in entities in which it has an equity ownership, and determined that the Company is not the primary beneficiary in any of these entities. Accordingly, these entities have not been consolidated because the Company does not have a controlling ownership in any of the companies, there are no disproportionate voting rights, it is not the responsibility of the Company to ensure the entities operate as intended and there are no requirements to provide for additional funding in the event of losses.

#### Note 2 - Reserves for Claims

Transactions in the reserves for claims for the six months ended June 30, 2010 and the year ended December 31, 2009 are summarized as follows:

	June 30, 2010	December 31, 2009
Balance, beginning of period	\$ 39,490,000	\$ 39,238,000
Provision, charged to operations	1,424,819	8,465,123
Payments of claims, net of recoveries	(3,162,819 )	(8,213,123 )
Ending balance	\$ 37,752,000	\$ 39,490,000

The total reserve for all reported and unreported losses the Company incurred through June 30, 2010 is represented by the reserves for claims. The Company's reserves for unpaid losses and loss adjustment expenses are established using estimated amounts required to settle claims for which notice has been received (reported) and the amount estimated to be required to satisfy incurred claims of policyholders which may be reported in the future. Despite the variability of such estimates, management believes that the reserves are adequate to cover claim losses which might result from pending and future claims under policies issued through June 30, 2010. The Company continually reviews and adjusts its reserve estimates to reflect its loss experience and any new information that becomes available. Adjustments resulting from such reviews may be significant.

The decrease in the loss provision for 2010 year-to-date is due to the recovery of \$942,000 under the Company's fidelity bond related to a defalcation that occurred in 2008, as well as a decrease in premium volume, a favorable adjustment to the current year loss provision rate and favorable experience development in several prior policy years.

A summary of the Company's loss reserves, broken down into its components of known title claims and incurred but not reported claims ("IBNR"), follows:

	June 30, 2010	%	December 31, 2009	%
Known title claims	\$ 6,070,489	16.1	\$ 6,398,623	16.2
IBNR	31,681,511	83.9	33,091,377	83.8
Total loss reserves	\$ 37,752,000	100.0	\$ 39,490,000	100.0

Claims and losses paid are charged to the reserves for claims. Although claims losses are typically paid in cash, occasionally claims are settled by purchasing the interest of the insured or the claimant in the real property. When this event occurs, the acquiring company carries assets at the lower of cost or estimated realizable value, net of any indebtedness on the property.

#### Note 3 - Comprehensive Income

Total comprehensive income for the three months ended June 30, 2010 and 2009 was \$2,141,933 and \$2,732,732, respectively. Comprehensive income for the six months ended June 30, 2010 and 2009 was \$2,398,925 and \$4,384,626, respectively. Other comprehensive income is comprised of unrealized gains or losses on the Company's available-for-sale securities, net of tax and amortization of prior service cost and unrealized gains and losses in net periodic benefit costs related to postretirement liabilities, net of tax.

#### Note 4 - Earnings Per Common Share and Share Awards

Basic earnings per common share is computed by dividing net income by the weighted-average number of common shares outstanding during the reporting period. Diluted earnings per common share is computed by dividing net income by the combination of dilutive potential common stock, comprised of shares issuable under the Company's share-based compensation plans and the weighted-average number of common shares outstanding during the reporting period. Dilutive common share equivalents includes the dilutive effect of in-the-money share-based awards, which are calculated based on the average share price for each period using the treasury stock method. Under the treasury stock method, the exercise price of a share-based award, the amount of compensation cost, if any, for future service that the Company has not yet recognized, and the amount of estimated tax benefits that would be recorded in additional paid-in capital, if any, when the share-based awards are exercised are assumed to be used to repurchase shares in the current period. The incremental dilutive potential common shares, calculated using the treasury stock method, were 7,546 and 0 for the three months ended June 30, 2010 and 2009, respectively, and 7,840 and 4,719 for the six months ended June 30, 2010, and 2009, respectively.

The following table sets forth the computation of basic and diluted earnings per share for the three and six month periods ended June 30:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Net income	\$2,537,560	\$2,115,473	\$2,554,975	\$3,550,436
Weighted average common shares outstanding - Basic	2,285,653	2,296,644	2,285,392	2,295,298
Incremental shares outstanding assuming the exercise of dilutive stock options and SARs (share settled)	7,546	-	7,840	4,719
Weighted average common shares outstanding - Diluted	2,293,199	2,296,644	2,293,232	2,300,017
Basic earnings per common share	\$1.11	\$0.92	\$1.12	\$1.55
Diluted earnings per common share	\$1.11	\$0.92	\$1.11	\$1.54

There were 13,500 and 17,200 shares excluded from the computation of diluted earnings per share for the three months ended June 30, 2010 and 2009, respectively, because these shares were anti-dilutive. There were 10,500 and 17,200 shares excluded from the computation of diluted earnings per share for the six months ended June 30, 2010 and 2009, respectively, because these shares were anti-dilutive.

The Company has adopted employee stock award plans (the "Plans") under which (i) restricted stock, and (ii) options or stock appreciation rights ("SARs") to purchase shares (not to exceed 500,000 shares) of the Company's stock may be granted to key employees or directors of the Company at a price not less than the market value on the date of grant. SARs and options (which have predominantly been incentive stock options) awarded under the Plans thus far are exercisable and vest immediately or within one year or at 10% to 20% per year beginning on the date of grant and generally expire in five to ten years. All SARs issued to date have been share settled only. There have not been any SARs exercised in 2010 or 2009.

A summary of share-based award transactions for all share-based award plans follows:

	Number Of Shares	Weighted Average Exercise Price	Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding as of January 1, 2008	60,480	\$ 22.77	4.11	\$ 1,377,390
SARs granted	3,000	47.88		
Options exercised	(12,360 )	18.67		
Options/SARs cancelled/forfeited/expired	(4,050 )	29.96		
Outstanding as of December 31, 2008	47,070	\$ 24.83	3.67	\$ 666,079
SARs granted	78,000	28.13		