

INVESTORS TITLE CO  
Form 10-Q  
May 10, 2018

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 March 31, 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: 0-11774

INVESTORS TITLE COMPANY  
(Exact name of registrant as specified in its charter)  
North Carolina 56-1110199  
(State of incorporation) (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, 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. (Check one):

Large accelerated filer    Accelerated filer   

Non-accelerated filer    (Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth 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  X

As of April 23, 2018, there were 1,886,630 common shares of the registrant outstanding.

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INVESTORS TITLE COMPANY  
AND SUBSIDIARIES

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## Investors Title Company and Subsidiaries

## Consolidated Balance Sheets

As of March 31, 2018 and December 31, 2017

(in thousands)

(unaudited)

	March 31, 2018	December 31, 2017
<b>Assets</b>		
Cash and cash equivalents	\$ 22,174	\$ 20,214
<b>Investments:</b>		
Fixed maturities, available-for-sale, at fair value (amortized cost: March 31, 2018: \$99,023; December 31, 2017: \$100,314)	100,389	103,341
Equity securities, at fair value (cost: March 31, 2018: \$26,530; December 31, 2017: \$26,003)	47,252	47,367
Short-term investments	21,144	23,780
Other investments	11,601	12,032
Total investments	180,386	186,520
Premium and fees receivable	9,889	10,031
Accrued interest and dividends	1,359	1,100
Prepaid expenses and other receivables	7,904	7,730
Property, net	10,376	10,173
Goodwill and other intangible assets	11,176	11,357
Other assets	1,417	1,403
Current income taxes receivable	—	385
Total Assets	\$ 244,681	\$ 248,913
<b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities:</b>		
Reserve for claims	\$ 32,770	\$ 34,801
Accounts payable and accrued liabilities	22,876	27,565
Current income taxes payable	215	—
Deferred income taxes, net	8,758	8,626
Total liabilities	64,619	70,992
Commitments and Contingencies	—	—
<b>Stockholders' Equity:</b>		
Preferred stock (1,000 authorized shares; no shares issued)	—	—
Common stock – no par value (10,000 authorized shares; 1,887 and 1,886 shares issued and outstanding as of March 31, 2018 and December 31, 2017, respectively, excluding in each period 292 shares of common stock held by the Company)	—	—
Retained earnings	178,971	161,891
Accumulated other comprehensive income	1,009	15,945
Total stockholders' equity attributable to the Company	179,980	177,836
Noncontrolling interests	82	85

Total stockholders' equity	180,062	177,921
Total Liabilities and Stockholders' Equity	\$244,681	\$ 248,913

See notes to the Consolidated Financial Statements.

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Investors Title Company and Subsidiaries  
Consolidated Statements of Income  
For the Three Months Ended March 31, 2018 and 2017  
(in thousands, except per share amounts)  
(unaudited)

	Three Months Ended March 31,	
	2018	2017
Revenues:		
Net premiums written	\$29,559	\$32,738
Escrow and other title-related fees	1,504	2,015
Non-title services	1,592	1,363
Interest and dividends	1,118	1,097
Other investment income	269	229
Net realized investment gains	153	103
Net unrealized loss on equity investments	(642 )	—
Other	223	248
Total Revenues	33,776	37,793
Operating Expenses:		
Commissions to agents	14,025	16,331
(Benefit) provision for claims	(1,406 )	720
Personnel expenses	11,340	9,958
Office and technology expenses	2,069	1,939
Other expenses	2,523	2,394
Total Operating Expenses	28,551	31,342
Income before Income Taxes	5,225	6,451
Provision for Income Taxes	1,052	1,985
Net Income	4,173	4,466
Net Loss Attributable to Noncontrolling Interests	3	10
Net Income Attributable to the Company	\$4,176	\$4,476
Basic Earnings per Common Share	\$2.21	\$2.37
Weighted Average Shares Outstanding – Basic	1,886	1,886
Diluted Earnings per Common Share	\$2.20	\$2.36
Weighted Average Shares Outstanding – Diluted	1,897	1,895
Cash Dividends Paid per Common Share	\$0.40	\$0.20

See notes to the Consolidated Financial Statements.



Investors Title Company and Subsidiaries  
Consolidated Statements of Comprehensive Income  
For the Three Months Ended March 31, 2018 and 2017  
(in thousands)  
(unaudited)

	Three Months Ended March 31,	
	2018	2017
Net income	\$4,173	\$4,466
Other comprehensive (loss) income, before tax:		
Amortization of unrecognized loss	—	2
Unrealized (losses) gains on investments arising during the period *	(1,660 )	1,666
Reclassification adjustment for sales of securities included in net income *	—	(90 )
Other comprehensive (loss) income, before tax	(1,660 )	1,578
Income tax expense related to postretirement health benefits	—	1
Income tax (benefit) expense related to unrealized (losses) gains on investments arising during the period *	(351 )	569
Income tax benefit related to reclassification adjustment for sales of securities included in net income *	—	(32 )
Net income tax (benefit) expense on other comprehensive (loss) income	(351 )	538
Other comprehensive (loss) income	(1,309 )	1,040
Comprehensive Income	\$2,864	\$5,506
Comprehensive loss attributable to noncontrolling interests	3	10
Comprehensive Income Attributable to the Company	\$2,867	\$5,516

\* Amounts related to 2018 include debt securities only. Amounts related to 2017 include both debt and equity securities.

See notes to the Consolidated Financial Statements.



Investors Title Company and Subsidiaries  
Consolidated Statements of Stockholders' Equity  
For the Three Months Ended March 31, 2018 and 2017  
(in thousands)  
(unaudited)

	Common Stock Shares	Retained Earnings Amount	Accumulated Other Comprehensive Income	Noncontrolling Interests	Total Stockholders' Equity
Balance, January 1, 2017	1,884	\$ —	\$ 11,761	\$ 91	\$ 155,136
Net income attributable to the Company		4,476			4,476
Dividends paid (\$0.20 per share)		(377 )			(377 )
Repurchases of common stock	—	(9 )			(9 )
Exercise of stock appreciation rights	2	(1 )			(1 )
Share-based compensation expense related to stock appreciation rights		32			32
Amortization related to postretirement health benefits			2		2
Net unrealized gain on investments			1,038		1,038
Net loss attributable to noncontrolling interests				(10 )	(10 )
Balance, March 31, 2017	1,886	\$ —	\$ 12,801	\$ 81	\$ 160,287
Balance, January 1, 2018	1,886	\$ —	\$ 15,945	\$ 85	\$ 177,921
Net income attributable to the Company		4,176			4,176
Dividends paid (\$0.40 per share)		(755 )			(755 )
Repurchases of common stock	—	(29 )			(29 )
Exercise of stock appreciation rights	1	(1 )			(1 )
Share-based compensation expense related to stock appreciation rights		62			62
Cumulative effect adjustment for adoption of new accounting standards		13,627	(13,627 )		—
Net unrealized loss on investments			(1,309 )		(1,309 )
Net loss attributable to noncontrolling interests				(3 )	(3 )
Balance, March 31, 2018	1,887	\$ —	\$ 1,009	\$ 82	\$ 180,062

See notes to the Consolidated Financial Statements.

Investors Title Company and Subsidiaries  
Consolidated Statements of Cash Flows  
For the Three Months Ended March 31, 2018 and 2017  
(in thousands)  
(unaudited)

	Three Months Ended March 31,	
	2018	2017
<b>Operating Activities</b>		
Net income	\$4,173	\$4,466
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	400	334
Amortization of investments, net	235	194
Amortization related to postretirement benefits obligation	—	2
Amortization of other intangible assets, net	181	234
Share-based compensation expense related to stock appreciation rights	62	32
Net gain on disposals of property	(9	) (16
Net realized gain on investments	(153	) (103
Net unrealized loss on equity investments	642	—
Net earnings from other investments	(109	) (143
(Benefit) provision for claims	(1,406	) 720
Provision (benefit) for deferred income taxes	484	(235
Changes in assets and liabilities:		
Decrease (increase) in premium and fees receivables	142	(9
Increase in other assets	(447	) (1,168
Decrease in current income taxes receivable	385	—
Decrease in accounts payable and accrued liabilities	(4,689	) (3,569
Increase in current income taxes payable	215	2,247
Payments of claims, net of recoveries	(625	) (579
Net cash (used in) provided by operating activities	(519	) 2,407
<b>Investing Activities</b>		
Purchases of fixed maturity securities	—	—
Purchases of equity securities	(815	) (561
Purchases of short-term investments	(2,457	) (7,722
Purchases of other investments	(145	) (308
Proceeds from sales and maturities of fixed maturity securities	1,005	3,410
Proceeds from sales of equity securities	441	284
Proceeds from sales and maturities of short-term investments	5,143	646
Proceeds from sales and distributions of other investments	686	1,050
Proceeds from sales of other assets	—	13
Purchases of property	(609	) (1,064
Proceeds from the sale of property	15	22
Net cash provided by (used in) investing activities	3,264	(4,230
<b>Financing Activities</b>		
Repurchases of common stock	(29	) (9
Exercise of stock appreciation rights	(1	) (1
Dividends paid	(755	) (377

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Net cash used in financing activities	(785 )	(387 )
Net Increase (Decrease) in Cash and Cash Equivalents	1,960	(2,210 )
Cash and Cash Equivalents, Beginning of Period	20,214	27,928
Cash and Cash Equivalents, End of Period	\$22,174	\$25,718

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Consolidated Statements of Cash Flows, continued

	Three Months Ended March 31,	
	2018	2017
Supplemental Disclosures:		
Cash Paid During the Year for:		
Income tax refunds, net	\$(32 )	\$(28 )
Non Cash Investing and Financing Activities:		
Non cash net unrealized loss (gain) on investments, net of deferred tax benefit (provision) of \$351 and \$(537) for March 31, 2018 and 2017, respectively	\$1,309	\$(1,038)

See notes to the Consolidated Financial Statements.

INVESTORS TITLE COMPANY  
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2018

(unaudited)

Note 1 – Basis of Presentation and Significant Accounting Policies

Reference should be made to the “Notes to Consolidated Financial Statements” appearing in the Annual Report on Form 10-K for the year ended December 31, 2017 of Investors Title Company (the “Company”) 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, and have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information, with the instructions to Form 10-Q and with Article 10 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in annual financial statements have been condensed or omitted. Earnings attributable to noncontrolling interests in majority-owned title insurance agencies are recorded in the Consolidated Statements of Income. Noncontrolling interests representing the portion of equity not related to the Company’s ownership interests are recorded in separate sections of the Consolidated Balance Sheets. 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 of the Company 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 March 31, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

Reclassifications – Certain prior year amounts have been reclassified for consistency with the current period presentation. The primary change was the presentation of revenue and operating expenses. Revenue other than title premiums are now presented in more detail than previously provided. Presentation of operating expenses has also been modified. These reclassifications had no effect on the reported results of operations.

Use of Estimates and Assumptions – The preparation of the Company’s Consolidated Financial Statements in conformity with 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions used.

Subsequent Events – The Company has evaluated and concluded that there were no material subsequent events requiring adjustment or disclosure to its Consolidated Financial Statements.

Recently Adopted Accounting Standards

In February 2018, the FASB issued Accounting Standards Update (“ASU”) 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. ASU 2018-02 is intended to help organizations reclassify certain stranded income tax effects in accumulated other comprehensive income resulting from the Tax Cuts and Jobs Act (“TCJA”). Under the ASU, entities have the option to reclassify tax effects within other comprehensive income to retained earnings in each period in which the

effect of the change in the federal corporate tax rate under the TCJA is recorded. The update is effective for annual periods beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The Company adopted this update on January 1, 2018 by means of a \$3.1 million cumulative effect reclassification between retained earnings and accumulated other comprehensive income. The update had no material impact on the Company's financial position and results of operations.

In March 2017, the FASB issued ASU 2017-07, Compensation - Retirement Benefits (Topic 715). This update requires entities to (1) disaggregate the current service cost component from the other components of net benefit cost (the "other components") and present it with other current compensation costs for related employees in the income statement and (2) present the other components elsewhere in the income statement and outside of income from operations if that subtotal is presented. In addition, the ASU requires entities to disclose the income statement lines that contain the other components if they are not presented on appropriately described separate lines. The update was effective for annual periods beginning after December 15, 2017, and interim periods within those fiscal years. The Company adopted this update on January 1, 2018 with no material impact on the Company's financial position and results of operations.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-01 updated guidance to enhance the reporting model for financial instruments. Among the main principles of the guidance applicable to the Company are provisions to: require equity investments, except those accounted for under the equity method of accounting or those that result in consolidation of the investee, to be measured at fair value with changes in fair value recognized in net income; simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, noting that when a qualitative assessment indicates that impairment exists that an entity is required to measure the investment at fair value; eliminate the requirement to disclose methods and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost; require entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; require separate presentation of financial assets and financial liabilities by measuring category and form of financial asset on the balance sheet or accompanying notes to the financial statements; and clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. The update was effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company adopted this update on January 1, 2018 by means of a \$16.8 million cumulative effect reclassification of the net unrealized gain related to equity securities from accumulated other comprehensive income to retained earnings. The amendments related to equity securities without readily determinable fair values were applied prospectively to equity investments that existed as of the date of adoption. As a result, the Company recognized a \$642 thousand net unrealized loss on equity investments in the Consolidated Statements of Income for the period ended March 31, 2018.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 updated guidance to improve the comparability of revenue recognition practices for entities that either enter into contracts with customers to transfer goods or services or enter into contracts for the transfer of nonfinancial assets, unless those contracts are within the scope of other standards such as insurance contracts or lease standards. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. For public entities, this update originally became effective for interim and annual reporting periods beginning after December 15, 2016. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date. ASU 2015-14 updated guidance to defer the effective date of the standard by one year. The Company adopted this update using the modified retrospective transition approach on January 1, 2018 with no impact on the Company's financial position and results of operations. Refer to Note 11 for further information regarding the Company's revenue from contracts with customers.

#### Recently Issued Accounting Standards

In March 2017, the FASB issued ASU 2017-08, Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. ASU 2017-08 is intended to enhance the accounting for the amortization of premiums for purchased callable debt securities. Specifically, the ASU shortens the amortization period for certain investments in callable debt securities purchased at a premium by requiring that the premium be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The update is effective for annual periods beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact that the recently issued accounting standard will have on the Company's financial position and results of operations, but does not expect it to have a material impact.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350). This update removes the requirement to compare the implied fair value of goodwill with its carrying amount as part of step 2 of the goodwill impairment test. As a result, under the ASU, an entity should perform its annual, or interim, goodwill

impairment test by comparing the fair value of a reporting unit with its carrying amount and should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. In addition, the ASU clarifies that an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. The update is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. None of these amendments will have an impact on the Company's financial position or results of operations.



In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326). ASU 2016-13 is intended to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The update broadens the information that an entity must consider in developing its expected credit loss estimates, and is meant to better reflect an entity's current estimate of all expected credit losses. In addition, this update amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The update is effective for annual periods beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted as of fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the impact that the recently issued accounting standard will have on the Company's financial position and results of operations, but does not expect it to have a material impact. Currently, the Company's potential credit losses under this accounting standard relate to fixed maturity securities. The Company does not believe that the risk of credit losses, based on current fixed maturity holdings, is material to the Company's financial statements as a whole. Refer to Note 6 for further information about the Company's investments.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). ASU 2016-02 updated guidance to improve financial reporting for leasing transactions. The core principle of the guidance is that lessees will be required to recognize assets and liabilities on the balance sheet for all leases with terms of more than twelve months. A lessee would recognize a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term. The accounting applied by a lessor is largely unchanged from current GAAP, with some targeted improvements. Disclosures will be required by lessees and lessors to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. In transition, both lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The update is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption was permitted for all entities upon issuance. The Company is currently evaluating the impact that the recently issued accounting standard will have on the Company's financial position and results of operations, but does not expect it to have a material impact. As of December 31, 2017, future minimum lease payments with terms of more than twelve months were approximately \$3.6 million.

Significant Accounting Policies – The Company has updated the following accounting policies due to the adoption of ASU 2016-01.

Investments in Equity Securities - Equity securities represent ownership interests held by the Company in entities for investment purpose. Prior to January 1, 2018, these equity securities were classified as available-for-sale and were carried at fair value on the Company's Consolidated Balance Sheet. Unrealized holding gains and losses from the changes in the fair values of available-for-sale equity securities were reported in accumulated other comprehensive income. Effective January 1, 2018, unrealized holding gains and losses are reported in the Consolidated Statement of Income as net unrealized gain or loss on equity securities. As a result, other-than-temporary impairments will no longer be considered for equity securities. Realized investment gains and losses from sales are recorded on the trade date and are determined using the specific identification method (see Equity Securities in Note 6 - "Investments and Estimated Fair Value").

Investments in Fixed Maturity Securities - Fixed maturity securities are classified as available-for-sale and reported at fair value with unrealized gains and losses, net of tax and adjusted for other-than-temporary declines in fair value, and reported as accumulated other comprehensive income. Securities are regularly reviewed for differences between the cost and estimated fair value of each security for factors that may indicate that a decline in fair value is other-than-temporary. Some factors considered in evaluating whether or not a decline in fair value is other-than-temporary include the duration and extent to which the fair value has been less than cost and the Company's ability and intent to retain the investment for a period of time sufficient to allow for a recovery in value. Such reviews

are inherently uncertain and the value of the investment may not fully recover or may decline in future periods resulting in a realized loss. Realized gains and losses are determined on the specific identification method (see Fixed Maturity Securities in Note 6 - "Investments and Estimated Fair Value").

Other Investments - Other investments consist of investments in unconsolidated affiliates typically structured as limited liability companies ("LLC's") without readily determinable fair values and are accounted for under either the equity method of accounting or the measurement alternative for investments. The measurement alternative method is used when such investment does not qualify for the equity method and does not qualify for the practical expedient in ASC Topic 820 to estimate fair value using the net asset value per share. Under the measurement alternative method, investments are recorded at cost, less any impairment, and plus or minus any changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. The Company monitors any events or changes in circumstances that may have had a significant adverse effect on the fair value of these investments and makes any necessary adjustments.

## Note 2 – Reserve for Claims

Activity in the reserve for claims for the three-month period ended March 31, 2018 and the year ended December 31, 2017 are summarized as follows:

(in thousands)	March 31, December 31,	
	2018	2017
Balance, beginning of period	\$34,801	\$ 35,305
(Benefit) provision, charged to operations	(1,406 )	3,311
Payments of claims, net of recoveries	(625 )	(3,815 )
Balance, end of period	\$32,770	\$ 34,801

The total reserve for all reported and unreported losses the Company incurred through March 31, 2018 is represented by the reserve 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 claims that have been incurred but not yet reported ("IBNR"). Despite the variability of such estimates, management believes that the total reserve is adequate to cover claim losses which might result from pending and future claims under title insurance policies issued through March 31, 2018. Management 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.

A summary of the Company's loss reserve, broken down into its components of known title claims and IBNR, follows:

(in thousands, except percentages)	March 31, %		December 31, %	
	2018	%	2017	%
Known title claims	\$ 3,704	11.3	\$ 4,646	13.4
IBNR	29,066	88.7	30,155	86.6
Total loss reserves	\$ 32,770	100.0	\$ 34,801	100.0

Claims and losses paid are charged to the reserve 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 Company carries assets at the lower of cost or estimated realizable value, net of any indebtedness on the property.

## Note 3 – Earnings Per Common Share and Share Awards

Basic earnings per common share is computed by dividing net income attributable to the Company by the weighted average number of common shares outstanding during the reporting period. Diluted earnings per common share is computed by dividing net income attributable to the Company 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 include 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, when share-based awards are exercised, (a) the exercise price of a share-based award; and (b) the amount of compensation cost, if any, for future services that the Company has not yet recognized, are assumed to be used to repurchase shares in the current period.

The following table sets forth the computation of basic and diluted earnings per share for the three-month period ended March 31:

Three Months  
Ended March  
31,

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(in thousands, except per share amounts)	2018	2017
Net income attributable to the Company	\$4,176	\$4,476
Weighted average common shares outstanding – Basic	1,886	1,886
Incremental shares outstanding assuming the exercise of dilutive SARs (share-settled)	11	9
Weighted average common shares outstanding – Diluted	1,897	1,895
Basic earnings per common share	\$2.21	\$2.37
Diluted earnings per common share	\$2.20	\$2.36

There were no potential shares excluded from the computation of diluted earnings per share for the three-month periods ended March 31, 2018 and 2017.

The Company historically has adopted employee stock award plans under which restricted stock, and options or stock appreciation rights ("SARs") 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. There is currently one active plan from which the Company may grant share-based awards. The awards eligible to be granted under the active plan are limited to SARs, and the maximum aggregate number of shares of common stock of the Company available pursuant to the plan for the grant of SARs is 250 thousand shares.

As of March 31, 2018, the only outstanding awards under the plans were SARs, which expire in seven years from the date of grant, and all of which vest and are exercisable within one year of the date of grant. All SARs issued to date have been share-settled only. There have been no stock options or SARs granted where the exercise price was less than the market price on the date of grant.

There was approximately \$62 thousand and \$32 thousand of compensation expense relating to SARs vesting on or before March 31, 2018 and 2017, respectively, included in salaries, employee benefits and payroll taxes in the Consolidated Statements of Income. As of March 31, 2018, there was no unrecognized compensation cost related to unvested share-based compensation arrangements granted under the Company's stock award plans.

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

(in thousands, except weighted average exercise price and average remaining contractual term)	Number Of Shares	Weighted Average Exercise Price	Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding as of January 1, 2017	25	\$ 3.85	3.85	\$ 837
SARs granted	4	93.87		
SARs exercised	(4 )	32.00		
Outstanding as of December 31, 2017	25	\$ 65.85	3.85	\$ 837
SARs granted	—	—		
SARs exercised	(1 )	41.50		
Outstanding as of March 31, 2018	24	\$ 95.56	3.88	\$ 2,504
Exercisable as of March 31, 2018	24	\$ 95.56	3.88	\$ 2,504
Unvested as of March 31, 2018	—	\$ —	0.00	\$ —

#### Note 4 – Segment Information

The Company has one reportable segment, title insurance services. The remaining immaterial segments have been combined into a group called "All Other."

The title insurance segment primarily issues title insurance policies through approved attorneys from underwriting offices and through independent issuing agents. Title insurance policies insure titles to real estate.

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Provided below is selected financial information about the Company's operations by segment for the periods ended March 31, 2018 and 2017:

Three Months Ended March 31, 2018 (in thousands)	Title Insurance	All Other	Intersegment Eliminations	Total
Insurance and other services revenues	\$32,421	\$1,890	\$ (1,433 )	\$32,878
Investment income	614	131	—	745
Net realized gain on investments	143	10	—	153
Total revenues	\$33,178	\$2,031	\$ (1,433 )	\$33,776
Operating expenses	27,792	2,058	(1,299 )	28,551
Income (loss) before income taxes	\$5,386	\$(27 )	\$(134 )	\$5,225
Total assets	\$191,396	\$53,285	\$ —	\$244,681

  

Three Months Ended March 31, 2017 (in thousands)	Title Insurance	All Other	Intersegment Eliminations	Total
Insurance and other services revenues	\$35,764	\$1,652	\$ (1,052 )	\$36,364
Investment income	1,162	164	—	1,326
Net realized gain on investments	63	40	—	103
Total revenues	\$36,989	\$1,856	\$ (1,052 )	\$37,793
Operating expenses	30,501	1,817	(976 )	31,342
Income before income taxes	\$6,488	\$39	\$(76 )	\$6,451
Total assets	\$184,770	\$48,442	\$ —	\$233,212

Note 5 – Retirement Agreements and Other Postretirement Benefits

The Company's subsidiary, Investors Title Insurance Company ("ITIC"), is a party to employment agreements with key executives that provide for the continuation of certain employee benefits and other payments due under the agreements upon retirement, estimated to total \$10.8 million and \$9.5 million as of March 31, 2018 and December 31, 2017, respectively. The executive employee benefits include health insurance, dental, vision and life insurance and are unfunded. These amounts are classified as accounts payable and accrued liabilities in the Consolidated Balance Sheets. The following sets forth the net periodic benefits cost for the executive benefits for the periods ended March 31, 2018 and 2017:

(in thousands)	Three Months Ended March 31, 2018	2017
Service cost – benefits earned during the year	\$—	\$—
Interest cost on the projected benefit obligation	8	9
Amortization of unrecognized losses	—	2
Net periodic benefits costs	\$8	\$11

Note 6 – Investments and Estimated Fair Value

Investments in Fixed Maturity Securities

The estimated fair value, gross unrealized holding gains, gross unrealized holding losses and amortized cost for fixed maturities by major classification are as follows:

As of March 31, 2018 (in thousands)	Amortized Cost	Gross Unrealized	Gross Unrealized	Estimated Fair
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		Gains	Losses	Value
Fixed maturities, available-for-sale, at fair value:				
General obligations of U.S. states, territories and political subdivisions	\$ 22,893	\$ 288	\$ 227	\$22,954
Special revenue issuer obligations of U.S. states, territories and political subdivisions	63,638	1,329	380	64,587
Corporate debt securities	12,492	417	61	12,848
Total	\$ 99,023	\$ 2,034	\$ 668	\$100,389

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As of December 31, 2017 (in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Fixed maturities, available-for-sale, at fair value:				
Government obligations	\$ 1,043	\$ —	\$ 1	\$ 1,042
General obligations of U.S. states, territories and political subdivisions	24,189	505	50	24,644
Special revenue issuer obligations of U.S. states, territories and political subdivisions	62,592	2,218	165	64,645
Corporate debt securities	12,490	527	7	13,010
Total	\$ 100,314	\$ 3,250	\$ 223	\$ 103,341

The special revenue category for both periods presented includes approximately 60 individual bonds with revenue sources from a variety of industry sectors.

The scheduled maturities of fixed maturity securities at March 31, 2018 were as follows:

(in thousands)	Available-for-Sale	
	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 10,959	\$ 10,985
Due one year through five years	39,894	40,678
Due five years through ten years	46,032	46,113
Due after ten years	2,138	2,613
Total	\$ 99,023	\$ 100,389

Expected maturities will differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without penalties.

The following table presents the gross unrealized losses on investment securities and the estimated fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous loss position at March 31, 2018 and December 31, 2017:

As of March 31, 2018 (in thousands)	Less than 12 Months		12 Months or Longer		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
General obligations of U.S. states, territories and political subdivisions	\$ 9,120	\$ (108 )	\$ 3,430	\$ (119 )	\$ 12,550	\$ (227 )
Special revenue issuer obligations of U.S. states, territories and political subdivisions	18,979	(180 )	4,412	(200 )	23,391	(380 )
Corporate	10,215	(61 )	—	—	10,215	(61 )
Total fixed income securities	\$ 38,314	\$ (349 )	\$ 7,842	\$ (319 )	\$ 46,156	\$ (668 )
Total temporarily impaired securities	\$ 38,314	\$ (349 )	\$ 7,842	\$ (319 )	\$ 46,156	\$ (668 )



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As of December 31, 2017 (in thousands)	Less than 12 Months		12 Months or Longer		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
Government obligations	\$1,042	\$ (1 )	\$—	\$ —	\$1,042	\$ (1 )
General obligations of U.S. states, territories and political subdivisions	4,560	(27 )	3,535	(23 )	8,095	(50 )
Special revenue issuer obligations of U.S. states, territories and political subdivisions	13,551	(61 )	4,023	(104 )	17,574	(165 )
Corporate debt securities	3,744	(7 )	—	—	3,744	(7 )
Total fixed income securities	\$22,897	\$ (96 )	\$7,558	\$ (127 )	\$30,455	\$ (223 )
Total temporarily impaired securities	\$22,897	\$ (96 )	\$7,558	\$ (127 )	\$30,455	\$ (223 )

The decline in estimated fair value of the fixed maturity securities can be attributed primarily to changes in market interest rates and changes in credit spreads over Treasury securities. Because the Company does not have the intent to sell these securities and will likely not be compelled to sell them before it can recover its cost basis, the Company does not consider these investments to be other-than-temporarily impaired.

Factors considered in determining whether a loss is temporary include the length of time and extent to which fair value has been below cost, the financial condition and prospects of the issuer (including credit ratings and analyst reports) and macro-economic changes. A total of 51 and 32 securities had unrealized losses at March 31, 2018 and December 31, 2017, respectively. Reviews of the values of securities are inherently uncertain and the value of the investment may not fully recover, or may decline in future periods resulting in a realized loss. The Company recorded no other-than-temporary impairment charges for fixed maturities for the three-month periods ended March 31, 2018 and 2017. Other-than-temporary impairment charges are included in net realized gain on investments in the Consolidated Statements of Income.

#### Investments in Equity Securities

The estimated fair value, gross unrealized holding gains, gross unrealized holding losses and cost for equity securities are as follows:

As of March 31, 2018 (in thousands)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Equity securities, at fair value:				
Common stocks	\$26,530	\$ 20,922	\$ 200	\$ 47,252
Total	\$26,530	\$ 20,922	\$ 200	\$ 47,252
As of December 31, 2017 (in thousands)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Equity securities, at fair value:				
Common stocks	\$26,003	\$ 21,376	\$ 12	\$ 47,367
Total	\$26,003	\$ 21,376	\$ 12	\$ 47,367

Effective January 1, 2018, unrealized holding gains and losses are reported in the consolidated statement of income as net unrealized gain or loss on equity securities. As a result, other-than-temporary impairments will no longer be considered for equity securities. The Company did not record any other-than-temporary charges for equity securities

for the three-month period ended March 31, 2017.

## Realized Gains from the Sale of Investment Securities

Gross realized gains and losses on sales of investments for the three-month periods ended March 31 are summarized as follows:

(in thousands)	2018	2017
Gross realized gains from securities:		
Special revenue issuer obligations of U.S. states, territories and political subdivisions	\$—	\$—
Corporate debt securities	—	—
Common stocks	164	90
Total	\$164	\$90
Gross realized losses from securities:		
General obligations of U.S. states, territories and political subdivisions	\$—	\$—
Special revenue issuer obligations of U.S. states, territories and political subdivisions	—	—
Common stocks	(11 )	—
Other-than-temporary impairment of securities	—	—
Total	\$(11 )	\$—
Net realized gain from securities	\$153	\$90
Net realized gain on other investments:		
Gains on other investments	\$—	\$13
Total	\$—	\$13
Net realized gain on investments	\$153	\$103

Realized gains and losses are determined on the specific identification method.

## Variable Interest Entities

The Company holds investments in variable interest entities ("VIEs") that are not consolidated in the Company's financial statements as the Company is not the primary beneficiary. These entities are considered VIEs as the equity investors at risk, including the Company, do not have the power over the activities that most significantly impact the economic performance of the entities; this power resides with a third-party general partner or managing member that cannot be removed except for cause. The following table sets forth details about the Company's variable interest investments in VIEs, which are structured either as limited partnerships ("LPs") or limited liability companies ("LLCs"), as of March 31, 2018:

Type of Investment (in thousands)	Balance Sheet Classification	Carrying Value	Estimated Fair Value	Maximum Potential Loss (a)
Tax credit LPs	Other investments	\$ 548	\$ 548	\$ 1,325
Real estate LLCs or LPs	Other investments	5,338	5,751	7,700
Small business investment LPs	Other investments	3,836	4,228	9,400
Total		\$ 9,722	\$ 10,527	\$ 18,425

Maximum potential loss is calculated as the total investment in the LLC or LP, including any capital commitments (a) that may have not yet been called. The Company is not exposed to any loss beyond the total commitment of its investment.

## Valuation of Financial Assets

The FASB has established a valuation hierarchy for disclosure of the inputs used to measure estimated fair value of financial assets and liabilities, such as securities. This hierarchy categorizes the inputs into three broad levels as follows. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2

inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. Level 3 inputs are unobservable inputs based on the Company's own assumptions used to measure assets and liabilities at fair value.

A financial instrument's classification within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement – consequently, if there are multiple significant valuation inputs that are categorized in different levels of the hierarchy, the instrument's hierarchy level is the lowest level (with Level 3 being the lowest level) within which any significant input falls.

The Level 1 category includes equity securities that are measured at estimated fair value using quoted active market prices.

The Level 2 category includes fixed maturity investments such as corporate bonds, U.S. government and agency bonds and municipal bonds. Estimated fair value is principally based on market values obtained from a third-party pricing service. Factors that are used in determining estimated fair market value include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. The Company receives one quote per security from a third-party pricing service, although as discussed below, the Company does consult other pricing resources when confirming that the prices it obtains reflect the fair values of the instruments in accordance with ASC 820, Fair Value Measurements and Disclosures. Generally, quotes obtained from the pricing service for instruments classified as Level 2 are not adjusted and are not binding. As of March 31, 2018 and December 31, 2017, the Company did not adjust any Level 2 fair values.

A number of the Company's investment grade corporate bonds are frequently traded in active markets, and trading prices are consequently available for these securities. However, these securities are classified as Level 2 because the pricing service from which the Company has obtained estimated fair values for these instruments uses valuation models that use observable market inputs in addition to trading prices. Substantially all of the input assumptions used in the service's model are observable in the marketplace or can be derived or supported by observable market data.

In the measurement of the estimated fair value of certain financial instruments, other valuation techniques were utilized if quoted market prices were not available. These derived fair value estimates are significantly affected by the assumptions used. Additionally, ASC 820 excludes from its scope certain financial instruments, including those related to insurance contracts, pension and other postretirement benefits, and equity method investments.

In estimating the fair value of the financial instruments presented, the Company used the following methods and assumptions:

#### Cash and cash equivalents

The carrying amount for cash and cash equivalents is a reasonable estimate of fair value due to the short-term maturity of these investments.

#### Measurement alternative equity investments

The measurement alternative method requires investments without readily determinable fair values to be recorded at cost, less impairments plus or minus any changes resulting from observable price changes. The Company monitors any events or changes in circumstances that may have had a significant adverse effect on the fair value of these investments and makes any necessary adjustments.

#### Accrued dividends and interest

The carrying amount for accrued dividends and interest is a reasonable estimate of fair value due to the short-term maturity of these assets.

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The following table presents, by level, fixed maturities carried at estimated fair value measured as of March 31, 2018 and December 31, 2017:

As of March 31, 2018 (in thousands)	Level 1	Level 2	Level 3	Total
Fixed maturities:				
Obligations of U.S. states, territories and political subdivisions*	\$	-\$87,541	\$	-\$87,541
Corporate debt securities*	—	12,848	—	12,848
Total	\$	-\$100,389	\$	-\$100,389

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As of December 31, 2017 (in thousands)	Level 1	Level 2	Level 3	Total
Fixed maturities:				
Obligations of U.S. states, territories and political subdivisions*	\$	-\$90,331	\$	-\$90,331
Corporate debt securities*	—	13,010	—	13,010
Total	\$	-\$103,341	\$	-\$103,341

\*Denotes fair market value obtained from pricing services.

The estimated fair values of equity investments and other financial instruments as of March 31, 2018 and December 31, 2017 are presented in the following table:

As of March 31, 2018 (in thousands)	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash	\$22,174	\$	-\$—	\$22,174
Accrued interest and dividends	1,359	—	—	1,359
Equity securities, at fair value:				
Common stocks	47,252	—	—	47,252
Short-term investments:				
Commercial paper, money market funds and certificates of deposit	21,144	—	—	21,144
Other investments:				
Equity investments in unconsolidated affiliates, equity method	—	—	6,134	6,134
Equity investments in unconsolidated affiliates, measurement alternative	—	—	5,467	5,467
Total	\$91,929	\$	-\$11,601	\$103,530

As of December 31, 2017 (in thousands)	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash	\$20,214	\$	-\$—	\$20,214
Accrued interest and dividends	1,100	—	—	1,100
Equity securities, at fair value:				
Common stocks	47,367	—	—	47,367
Short-term investments:				
Commercial paper, money market funds and certificates of deposit	23,780	—	—	23,780
Other investments:				
Equity investments in unconsolidated affiliates, equity method	—	—	6,593	6,593
Equity investments in unconsolidated affiliates, measurement alternative	—	—	5,439	5,439
Total	\$92,461	\$	-\$12,032	\$104,493

The Company did not hold any Level 3 category debt or marketable equity investment securities as of March 31, 2018 or December 31, 2017.

There were no transfers into or out of Levels 1, 2 or 3 during the period.

To help ensure that estimated fair value determinations are consistent with ASC 820, prices from our pricing services go through multiple review processes to ensure appropriate pricing. Pricing procedures and inputs used to price each security include, but are not limited to, the following: unadjusted quoted market prices for identical securities such as stock market closing prices; non-binding quoted prices for identical securities in markets that are not active; interest rates; yield curves observable at commonly quoted intervals; volatility; prepayment speeds; loss severity; credit risks and default rates. The Company reviews the procedures and inputs used by its pricing services, and verifies a sample of the services' quotes by comparing them to values obtained from other pricing resources. In the event the Company disagrees with a price provided by its pricing services, the respective service reevaluates the price to corroborate the market information and then reviews inputs to the evaluation in light of potentially new market data. The Company believes that these processes and inputs result in appropriate classifications and estimated fair values consistent with ASC 820.

Certain equity investments under the measurement alternative are measured at estimated fair value on a non-recurring basis and are reviewed for impairment quarterly. If any such investment is determined to be other-than-temporarily impaired, an impairment charge is recorded against such investment and reflected in the Consolidated Statements of Income. There were no impairments of such investments made during the three-month period ended March 31, 2018 or the twelve-month period ended December 31, 2017. The following table presents a rollforward of equity investments under the measurement alternative as of March 31, 2018 and December 31, 2017:

	Balance, January 1, 2018	Impairments	Observable Changes	Purchases and Additional Commitments Paid	Sales, Returns of Capital and Other Reductions	Balance, March 31, 2018
As of March 31, 2018 (in thousands)						
Other investments:						
Equity investments in unconsolidated affiliates, measurement alternative	\$ 5,439	\$ —	\$ —	\$ 135	\$ (107 )	\$ 5,467
Total	\$ 5,439	\$ —	\$ —	\$ 135	\$ (107 )	\$ 5,467
As of December 31, 2017 (in thousands)						
Other investments:						
Equity investments in unconsolidated affiliates, measurement alternative	\$ 4,744	\$ —	\$ —	\$ 1,082	\$ (387 )	\$ 5,439
Total	\$ 4,744	\$ —	\$ —	\$ 1,082	\$ (387 )	\$ 5,439

#### Note 7 – Commitments and Contingencies

**Legal Proceedings** – The Company and its subsidiaries are involved in legal proceedings that are incidental to their business. In the Company's opinion, based on the present status of these proceedings, any potential liability of the Company or its subsidiaries with respect to these legal proceedings, will not, in the aggregate, be material to the Company's consolidated financial condition or operations.

**Regulation** – The Company's title insurance and trust subsidiaries are regulated by various federal, state and local governmental agencies and are subject to various audits and inquiries. It is the opinion of management based on its present expectations that these audits and inquiries will not have a material impact on the Company's consolidated financial condition or operations.



Escrow and Trust Deposits – As a service to its customers, the Company, through ITIC, administers escrow and trust deposits representing earnest money received under real estate contracts, undisbursed amounts received for settlement of mortgage loans and indemnities against specific title risks. These amounts are not considered assets of the Company and, therefore, are excluded from the accompanying Consolidated Balance Sheets. However, the Company remains contingently liable for the disposition of these deposits.

Like-Kind Exchanges Proceeds – In administering tax-deferred property exchanges, the Company’s subsidiary, Investors Title Exchange Corporation (“ITEC”), serves as a qualified intermediary for exchanges, holding the net sales proceeds from relinquished property to be used for purchase of replacement property. Another Company subsidiary, Investors Title Accommodation Corporation (“ITAC”), serves as exchange accommodation titleholder and, through limited liability companies that are wholly owned subsidiaries of ITAC, holds property for exchangers in reverse exchange transactions. Like-kind exchange deposits and reverse exchange property totaled approximately \$149.5 million and \$185.0 million as of March 31, 2018 and December 31, 2017, respectively. These amounts are not considered assets of the Company and, therefore, are excluded from the accompanying Consolidated Balance Sheets; however, the Company remains contingently liable for the disposition of the transfers of property, disbursements of proceeds and the return on the proceeds at the agreed upon rate. Exchange services revenues include earnings on these deposits; therefore, investment income is shown as non-title services rather than investment income. These like-kind exchange funds are primarily invested in money market and other short-term investments.

#### Note 8 – Related Party Transactions

The Company does business with, and has investments in, unconsolidated limited liability companies that are primarily title insurance agencies. The Company utilizes the equity method to account for its investment in these limited liability companies. The following table sets forth the approximate values by year found within each financial statement classification:

Financial Statement Classification, As of Consolidated Balance Sheets (in thousands)	As of March 31, 2018	As of December 31, 2017
Other investments	\$6,134	\$ 6,594
Premiums and fees receivable	\$721	\$ 720

  

Financial Statement Classification, Consolidated Statements of Income (in thousands)	For the Three Months Ended March 31,	
	2018	2017
Net premiums written	\$3,191	\$3,620
Non-title services and other investment income	\$243	\$272
Commissions to agents	\$2,115	\$2,404

#### Note 9 – Intangible Assets and Goodwill

##### Intangible Assets

The fair values of intangible assets recognized as the result of title insurance agency acquisitions, all Level 3 inputs, are principally based on values obtained from a third-party valuation service. In accordance with ASC 350, Intangibles – Goodwill and Other, management determined that no events or changes in circumstances occurred during 2018 that would indicate the carrying amounts may not be recoverable, and therefore determined that no identifiable intangible assets were impaired during the three months ended March 31, 2018. Net identifiable intangible assets of \$154 thousand were impaired during 2017.

Identifiable intangible assets consist of the following as of March 31, 2018 and December 31, 2017:

(in thousands)	2018	2017
Referral relationships	\$6,416	\$6,416
Non-compete agreements	1,406	1,406
Tradename	560	560

Total	8,382	8,382
Accumulated amortization	(1,556 )	(1,375 )
Identifiable intangible assets, net	\$6,826	\$7,007

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The following table provides the estimated aggregate amortization expense for each of the five succeeding fiscal years:

Year Ended (in thousands)	
2018	\$397
2019	569
2020	569
2021	562
2022	525
Thereafter	4,204
Total	\$6,826

#### Goodwill and Title Plant

As of March 31, 2018, the Company recognized \$4.4 million in goodwill and \$690 thousand in a title plant, net of impairments, as the result of title insurance agency acquisitions. The title plant is included with other assets in the Consolidated Balance Sheets. The fair values of goodwill and the title plant, both Level 3 inputs, are principally based on values obtained from a third-party valuation service. In accordance with ASC 350, Intangibles – Goodwill and Other, management determined that no events or changes in circumstances occurred during 2018 that would indicate the carrying amounts may not be recoverable, and therefore determined that neither goodwill nor the title plant were impaired during the three months ended March 31, 2018. Goodwill of \$29 thousand was impaired during 2017.

#### Note 10 – Accumulated Other Comprehensive Income

The following tables provide changes in the balances of each component of accumulated other comprehensive income, net of tax, for the periods ended March 31, 2018 and 2017:

Three Months Ended March 31, 2018 (in thousands)	Unrealized Gains and Losses On Available-for-Sale Securities		Postretirement Benefits Plans	Total
Beginning balance at January 1	\$ 16,003		\$ (58 )	\$15,945
Cumulative effect adjustment for adoption of new accounting standards	(13,616 )		(11 )	(13,627 )
Other comprehensive loss before reclassifications	(1,309 )		—	(1,309 )
Amounts reclassified from accumulated other comprehensive income	—		—	—
Net current-period other comprehensive loss	(1,309 )		—	(1,309 )
Ending balance	\$ 1,078		\$ (69 )	\$1,009
Three Months Ended March 31, 2017 (in thousands)	Unrealized Gains and Losses On Available-for-Sale Securities		Postretirement Benefits Plans	Total
Beginning balance at January 1	\$ 11,870		\$ (109 )	\$11,761
Other comprehensive income before reclassifications	1,097		—	1,097
Amounts reclassified from accumulated other comprehensive income	(58 )	1		(57 )
Net current-period other comprehensive income	1,039	1		1,040
Ending balance	\$ 12,909		\$ (108 )	\$12,801



The following tables provide significant amounts reclassified out of each component of accumulated other comprehensive income for the periods ended March 31, 2018 and 2017:

Three Months Ended March 31, 2018 (in thousands)

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Consolidated Statements of Income
Unrealized gains and losses on available-for-sale securities:		
Net realized gain on investments	\$ —	
Other-than-temporary impairments	—	
Total	\$ —	Net realized investment gains
Tax	—	Provision for Income Taxes
Net of Tax	\$ —	
Amortization related to postretirement benefit plans:		
Prior year service cost	\$ —	
Unrecognized loss	—	
Total	\$ —	(a)
Tax	—	Provision for Income Taxes
Net of Tax	\$ —	
Reclassifications for the period	\$ —	

Three Months Ended March 31, 2017 (in thousands)

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Consolidated Statements of Income
Unrealized gains and losses on available-for-sale securities:		
Net realized gain on investments	\$ 90	
Other-than-temporary impairments	—	
Total	\$ 90	Net realized investment gains
Tax	(32 )	Provision for Income Taxes
Net of Tax	\$ 58	
Amortization related to postretirement benefit plans:		
Prior year service cost	\$ —	
Unrecognized loss	(2 )	
Total	\$ (2 )	(a)
Tax	1	Provision for Income Taxes
Net of Tax	\$ (1 )	
Reclassifications for the period	\$ 57	

(a) These accumulated other comprehensive income components are not reclassified to net income in their entirety in the same reporting period. The amounts are presented within personnel costs on the Consolidated Statements of Income as amortized. Amortization and accretion related to postretirement benefit plans is included in the computation of net periodic pension costs, as discussed in Note 5.



## Note 11 – Revenue Recognition

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 updated guidance to improve the comparability of revenue recognition practices for entities that either enter into contracts with customers to transfer goods or services or enter into contracts for the transfer of nonfinancial assets, unless those contracts are within the scope of other standards such as insurance contracts or lease standards. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company adopted this update on January 1, 2018 with no impact on the Company's financial position and results of operations.

The new revenue guidance does not apply to revenue associated with insurance contracts, financial instruments and lease contracts. The new revenue standard primarily impacts the following revenue categories.

**Escrow and other title-related fees:** The Company's title segment recognizes commission revenue and fees related to items such as searches, settlements, commitments and other work. Escrow and other title-related fees are recognized as revenue at the time of the related transaction as the earnings process is then considered to be complete.

**Non-title services:** Through various subsidiaries, the Company offers management services, tax-deferred real property exchange services, investment management and trust services. Nonrefundable exchange fees are recognized as revenue upon receipt of the funds, which is at the time of closing of the initial sale of property. All other non-title service fees are recognized as revenue as performance obligations are completed.

**Other:** The Company occasionally recognizes revenue from other miscellaneous contracts. These revenue streams are deemed immaterial to the operations of the Company, and revenue is recognized when, or as, performance obligations are completed.

The following table provides a breakdown of the Company's revenue by major business activity:

(in thousands)	Three Months Ended March 31, 2018
Revenue from contracts with customers:	
Escrow and other title-related fees	\$1,504
Non-title services	1,592
Total revenue from contracts with customers	3,096
Other sources of revenue:	
Net premiums written	29,559
Investment related revenue	898
Other	223
Total Revenues	\$33,776



## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The Company's Annual Report on Form 10-K for the year ended December 31, 2017 should be read in conjunction with the following discussion since it contains information which is important for evaluating the Company's operating results and financial condition. Forward-looking statements are based on certain assumptions and expectations of future events that are subject to a number of risks and uncertainties. Actual results may vary.

### Overview

Investors Title Company (the "Company") is a holding company that engages primarily in issuing title insurance through two subsidiaries, Investors Title Insurance Company ("ITIC") and National Investors Title Insurance Company ("NITIC"). Total revenues from the title segment accounted for 94.8% of the Company's revenues for the three-month period ended March 31, 2018. Through ITIC and NITIC, the Company underwrites land title insurance for owners and mortgagees as a primary insurer. Title insurance protects against loss or damage resulting from title defects that affect real property.

There are two basic types of title insurance policies - one for the mortgage lender and one for the real property owner. A lender often requires the property owner to purchase a lender's title insurance policy to protect its position as a holder of a mortgage loan, but the lender's title insurance policy does not protect the property owner. The property owner has to purchase a separate owner's title insurance policy to protect its investment. When real property is conveyed from one party to another, occasionally there is an undisclosed defect in the title or a mistake or omission in a prior deed, will or mortgage that may give a third party a legal claim against such property. If a covered claim is made against real property, title insurance provides indemnification against insured defects.

The Company issues title insurance policies through its home and branch offices and through a network of agents. Issuing agents are typically real estate attorneys, independent agents or subsidiaries of community and regional mortgage lending institutions, depending on local customs and regulations and the Company's marketing strategy in a particular territory. The ability to attract and retain issuing agents is a key determinant of the Company's growth in title insurance premiums written.

Revenues for the title insurance segment primarily result from purchases of new and existing residential and commercial real estate, refinance activity and certain other types of mortgage lending such as home equity lines of credit.

Title insurance premiums vary from state to state and are subject to extensive regulation. Statutes generally provide that rates must not be excessive, inadequate or unfairly discriminatory. The process of implementing a rate change in most states involves pre-approval by the applicable state insurance regulator.

Volume is a factor in the Company's profitability due to fixed operating costs that are incurred by the Company regardless of title insurance premium volume. The resulting operating leverage tends to amplify the impact of changes in volume on the Company's profitability. The Company's profitability also depends, in part, upon its ability to manage its investment portfolio to maximize investment returns and minimize risks such as interest rate changes, defaults and impairments of assets.

The Company's volume of title insurance premiums is affected by the overall level of residential and commercial real estate activity, which includes property sales, mortgage financing and mortgage refinancing. Real estate activity, home sales and mortgage lending are cyclical in nature. In turn, real estate activity is affected by a number of factors, including the availability of mortgage credit, the cost of real estate, consumer confidence, employment and family income levels and general United States economic conditions. Interest rate volatility is also an important factor in the level of residential and commercial real estate activity.

The Company's title insurance premiums in future periods are likely to fluctuate due to these and other factors which are beyond management's control.

Historically, the title insurance business tends to be seasonal as well as cyclical. Because home sales are typically strongest in periods of favorable weather, the first calendar quarter tends to have the lowest activity levels, while the spring and summer quarters tend to be more active. Refinance activity is generally less seasonal, but is subject to interest rate fluctuations.

Services other than title insurance provided by operating divisions of the Company are not reported separately and are reported collectively in a category called "All Other." These other services include those offered by the Company and by its wholly owned subsidiaries, Investors Title Exchange Corporation ("ITEC"), Investors Title Accommodation Corporation ("ITAC"), Investors Trust Company ("Investors Trust") and Investors Title Management Services, Inc. ("ITMS").

The Company's exchange services division, consisting of the operations of ITEC and ITAC, provides customer services in connection with tax-deferred real property exchanges. ITEC serves as a qualified intermediary in like-kind exchanges under Section 1031 of the Internal Revenue Code of 1986, as amended. In its role as qualified intermediary, ITEC coordinates the exchange aspects of the real estate transaction, and its duties include drafting standard exchange documents, holding the exchange funds between the sale of the old property and the purchase of the new property, and accepting the formal identification of the replacement property within the required identification period. ITAC serves as exchange accommodation titleholder in reverse exchanges. An exchange accommodation offers a vehicle for accommodating a reverse exchange when the taxpayer must acquire replacement property before selling the relinquished property.

The Company's trust services division, Investors Trust, provides investment management and trust services to individuals, companies, banks and trusts.

ITMS offers various consulting services to provide clients with the technical expertise to start and successfully operate a title insurance agency.

#### Business Trends and Recent Conditions

The housing market is heavily influenced by government policies and overall economic conditions. Regulatory reform and initiatives by various governmental agencies, including the Federal Reserve's monetary policy and other regulatory changes, could impact lending standards or the processes and procedures used by the Company. The current real estate environment, including interest rates and general economic activity, typically influence the demand for real estate. Changes in either of these areas would likely impact the Company's results of operations.

#### Regulatory Environment

In efforts to provide transparency, the Federal Open Market Committee ("FOMC") of the Federal Reserve issues disclosures on a periodic basis that include projections of the federal funds rate and expected actions. At the December 2015 meeting, the FOMC voted to raise the federal funds rate for the first time since December 2008 to a target range between 0.25% and 0.50%. Since December 2015, the FOMC has voted five times to increase the federal funds rate, most recently at the March 2018 meeting to a target range between 1.50% and 1.75%. Any future adjustments to the rate are expected to be based on realized and expected economic developments to achieve maximum employment and 2.0% inflation. The FOMC anticipates future economic conditions to evolve in ways that will warrant increases and that, for some time, the federal funds rate is expected to be below long range levels. At the September 2017 meeting, the FOMC announced the reduction of securities held on the Federal Reserve's balance sheet, also known as normalization, which began in October 2017.

In 2008, the federal government took control of Fannie Mae and Freddie Mac in an effort to keep these government-sponsored entities from failing. The primary functions of Fannie Mae and Freddie Mac are to provide liquidity to the nation's mortgage finance system by purchasing mortgages on the secondary market, pooling them and selling them as mortgage-backed securities. In order to securitize, Fannie Mae and Freddie Mac typically require the purchase of title insurance for loans they acquire. Since the federal takeover, there have been various discussions and proposals regarding their reform. Changes to these entities could impact the entire mortgage loan process and, as a result, could affect the demand for title insurance. The timing and results of reform are currently unknown; however, any changes to these entities could affect the Company and its results of operations.

On July 7, 2017, the Consumer Financial Protection Bureau ("CFPB") released final amendments to federal mortgage disclosure requirements under the Real Estate Settlement Procedures Act ("RESPA") and the Truth in Lending Act that are implemented in Regulation Z. The final rules were published in the Federal Register on August 11, 2017. The amendments reinforce the CFPB's informal guidance on various issues and include clarifications and technical amendments. The CFPB rule creates tolerances for the total of payments; adjusts a partial exemption that mainly affects housing finance agencies and nonprofits; provides a uniform rule regarding application of the integrated

mortgage disclosure requirements to cooperative units; and provides guidance on sharing the disclosures with various parties involved in the mortgage origination process. The final rule did not have a material impact on the Company.

In recent years, the CFPB, Office of the Comptroller of Currency and the Federal Reserve have issued memorandums to banks reflecting a heightened focus on vetting third party providers. Such increased regulatory involvement may affect the Company's agents and approved providers. Further proposals to change regulations governing insurance holding companies and the title insurance industry are often introduced in Congress, in state legislatures and before various insurance regulatory agencies. Although the Company regularly monitors such proposals, the likelihood and timing of passage of any such regulation, and the possible effects of any such regulation on the Company and its subsidiaries, cannot be determined at this time.

In recent months, both the President and certain members of Congress have indicated a desire for reform of the CFPB. The timing and nature of any reforms are currently unknown; however, any changes to the CFPB could affect the Company and its results of operations.

On December 22, 2017, the Tax Cuts and Jobs Act ("TCJA") was enacted into law, reducing the federal corporate income tax rate from 35% to 21%, effective January 1, 2018. As required under generally accepted accounting principles, the Company's deferred tax assets and liabilities were revalued at the new tax rate, and the impact was recognized in the provision for income taxes in the fourth quarter of 2017. The revaluation resulted in a tax benefit of approximately \$5.3 million, or \$2.82 per diluted share, for the year ended December 31, 2017.

#### Real Estate Environment

Overall, the economy is currently expanding and there has been a steady reduction in unemployment in recent years. The Mortgage Bankers Association's ("MBA") March 2018 Economic and Mortgage Finance Commentary ("MBA Commentary") predicts that the unemployment rate will continue to decrease, reaching a low of 3.7% in the third quarter of 2018 and staying at that level through 2019. The strong job market, coupled with a forecast of gross domestic product growth, upward wage pressures and demographics bringing in another cohort of homeowners, are expected to generate increased purchase mortgage originations in 2018. The growth in purchase originations could be dampened by constraints in the availability of new and existing homes for sale. There are also indications that FOMC members are now anticipating a faster pace of interest rate hikes this year and next than had previously been communicated.

The MBA March 20, 2018 Mortgage Finance Forecast ("MBA Forecast") projects 2018 purchase activity to increase 5.6% to \$1,172 billion and refinance activity to decrease 27.0% to \$438 billion, resulting in a decrease in total mortgage originations of 5.8% to \$1,610 billion, all from 2017 levels. In 2017, purchase activity accounted for 64.9% of all mortgage originations and is projected in the MBA Forecast to represent 72.8% of all mortgage originations in 2018.

According to data published by Freddie Mac, the average 30-year fixed mortgage interest rate in the United States was 4.3% and 4.2% for the three-month periods ended March 31, 2018 and 2017, respectively. Per the MBA Forecast, refinancing is expected to be lower in 2018 as mortgage interest rates continue to climb to a projected 4.9% in the fourth quarter of 2018.

Historically, activity in real estate markets has varied over the course of market cycles by geographic region and in response to evolving economic factors. Operating results can vary from year to year based on cyclical market conditions and do not necessarily indicate the Company's future operating results and cash flows.

#### Critical Accounting Estimates and Policies

The preparation of the Company's Consolidated Financial Statements requires management to make estimates and judgments that affect the reported amounts of certain assets, liabilities, revenues, expenses and related disclosures regarding contingencies and commitments. Actual results could differ from these estimates. During the three-month period ended March 31, 2018, the Company made the following changes to its critical accounting policies as previously disclosed in Management's Discussion and Analysis in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 as filed with the Securities and Exchange Commission.

The Company has updated the following accounting policies due to the adoption of Accounting Standards Update ("ASU") 2016-01.

Investments in Equity Securities - Equity securities represent ownership interests held by the Company in entities for investment purposes. Prior to January 1, 2018, these equity securities were classified as available-for-sale and were carried at fair value on the Company's Consolidated Balance Sheet. Unrealized holding gains and losses from the changes in the fair values of available-for-sale equity securities were reported in accumulated other comprehensive income. Effective January 1, 2018, unrealized holding gains and losses are reported in the Consolidated Statement of Income as net unrealized gain/(loss) on equity securities. As a result, other-than-temporary impairments will no longer be considered for equity securities. Realized investment gains and losses from sales are recorded on the trade date and are determined using the specific identification method (see Equity Securities in Note 6 - "Investments and Estimated Fair Value" in the Notes to Consolidated Financial Statements herein).

Investments in Fixed Maturity Securities - Fixed maturity securities are classified as available-for-sale and reported at fair value with unrealized gains and losses, net of tax and adjusted for other-than-temporary declines in fair value, and reported as accumulated other comprehensive income. Securities are regularly reviewed for differences between the cost and estimated fair value of each security for factors that may indicate that a decline in fair value is other-than-temporary. Some factors considered in evaluating whether or not a decline in fair value is other-than-temporary include the duration and extent to which the fair value has been less than cost and the Company's ability and intent to retain the investment for a period of time sufficient to allow for a recovery in value. Such reviews are inherently uncertain and the value of the investment may not fully recover or may decline in future periods resulting in a realized loss. Realized gains and losses are determined on the specific identification method (see Fixed Maturity Securities in Note 6 - "Investments and Estimated Fair Value" in the Notes to Consolidated Financial Statements herein).

Other Investments - Other investments consist of investments in unconsolidated affiliates typically structured as limited liability companies ("LLC's") without readily determinable fair values and are accounted for under either the equity method of accounting or the measurement alternative for investments. The measurement alternative method is used when such investment does not qualify for the equity method and does not qualify for the practical expedient in ASC Topic 820 to estimate fair value using the net asset value per share. Under the measurement alternative method, investments are recorded at cost, less any impairment plus or minus any changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. The Company monitors any events or changes in circumstances that may have had a significant adverse effect on the fair value of these investments and makes any necessary adjustments.

#### Results of Operations

The following table presents certain income statement data for the three months ended March 31, 2018 and 2017:

(in thousands)	Three Months Ended March 31,	
	2018	2017
Revenues:		
Net premiums written	\$29,559	\$32,738
Escrow and other title-related fees	1,504	2,015
Non-title services	1,592	1,363
Interest and dividends	1,118	1,097
Other investment income	269	229
Net realized investment gains	153	103
Net unrealized loss on equity investments	(642)	—
Other	223	248
Total Revenues	33,776	37,793
Operating Expenses:		
Commissions to agents	14,025	16,331
(Benefit) provision for claims	(1,406)	720
Personnel expenses	11,340	9,958
Office and technology expenses	2,069	1,939
Other expenses	2,523	2,394
Total Operating Expenses	28,551	31,342
Income before Income Taxes	5,225	6,451

Provision for Income Taxes	1,052	1,985
Net Income Attributable to the Company	\$4,176	\$4,476

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## Insurance Revenues

Insurance revenues include net premiums written and other title-related income that includes escrow and settlement fees. Non-title services, investment and other income are discussed separately below.

## Net Premiums Written

Title insurance companies typically issue title insurance policies directly through home and branch offices or through title agencies. Following is a breakdown of net premiums generated by home and branch offices and agency operations for the three months ended March 31, 2018 and 2017:

(in thousands, except percentages)	Three Months Ended March 31,			
	2018	%	2017	%
Home and Branch	\$8,617	29.2 %	\$9,283	28.4 %
Agency	20,942	70.8 %	23,455	71.6 %
Total	\$29,559	100.0 %	\$32,738	100.0 %

Home and Branch Office Net Premiums: In the Company's home and branch operations, the Company issues an insurance policy and retains the entire premium, as no commissions are paid in connection with these policies. Net premiums written from home and branch operations decreased 7.2% for the three months ended March 31, 2018, compared with the prior year period. The decrease for the three-month period ended March 31, 2018 was primarily attributable to a decrease in refinance activity and a shift toward more rural markets with lower average property values.

All of the Company's home office operations and the majority of its branch offices are located in North Carolina; as a result, the home and branch office net premiums written are primarily for North Carolina title insurance policies.

Agency Net Premiums: When a policy is written through a title agency, the premium is shared between the agency and the underwriter. Total premiums include an estimate of premiums for policies that have been issued by agents, but not reported to the Company as of the balance sheet date. To determine the estimated premiums, the Company uses historical experience, as well as other factors, to make certain assumptions about the average elapsed time between the policy effective date and the date the policies are reported. From time to time, the Company adjusts the inputs to the estimation process as agents report transactions and new information becomes available. In addition to estimating revenues, the Company also estimates and accrues agent commissions, claims provision, premium taxes, income taxes, and other expenses associated with the estimated revenues that have been accrued. The Company reflects any adjustments to the accruals in the results of operations in the period in which new information becomes available.

Agency net premiums written decreased 10.7% for the three months ended March 31, 2018, compared with the prior year period. The decrease for the three-month period ended March 31, 2018 was primarily attributable to lower levels of refinance activity following recent increases in mortgage interest rates. The volume decreases were partially offset by a continuation of increases in real estate values in our core markets.

Following is a schedule of net premiums written for the three months ended March 31, 2018 and 2017 in select states in which the Company's two insurance subsidiaries, ITIC and NITIC, currently underwrite title insurance:

State (in thousands)	Three Months Ended March 31,	
	2018	2017
North Carolina	\$11,628	\$12,223
Texas	5,411	6,171
South Carolina	3,545	3,625
Georgia	2,481	2,830
Virginia	1,418	1,560
All Others	5,140	6,385
Premiums	29,623	32,794
Reinsurance Assumed	2	—
Reinsurance Ceded	(66 )	(56 )
Net Premiums Written	\$29,559	\$32,738

#### Escrow and Other Title-Related Fees

Escrow and other title-related fees consists primarily of commission income, escrow and other various fees associated with the issuance of a title insurance policy including settlement, examination and closing fees. Escrow and other title-related fee income was \$1.5 million for the three months ended March 31, 2018, compared with \$2.0 million for the same prior year period. The decrease for the three months ended March 31, 2018 was primarily due to lower commission income.

#### Revenue from Non-Title Services

Revenue from non-title services includes trust services, agency management services and exchange services income. Non-title services revenues was \$1.6 million for the three months ended March 31, 2018, compared with \$1.4 million for the same prior year period. The increase for the three-month period ended March 31, 2018 primarily related to increases in revenue from exchange services, trust services and agency management services.

#### Investment Related Revenues

##### Interest and Dividends

The Company derives a substantial portion of its income from investments in municipal and corporate bonds and equity securities. The Company's title insurance subsidiaries are required by statute to maintain minimum levels of investments in order to protect the interests of policyholders. The Company's investment policy is designed to comply with regulatory requirements and to balance the competing objectives of asset quality and investment returns.

The Company's investment strategy emphasizes after-tax income and principal preservation. The Company's investments are primarily in bonds and, to a lesser extent, equity securities. The average effective maturity of the majority of the bonds is less than 10 years. The Company's invested assets are managed to fund its obligations and evaluated to ensure long term stability of capital accounts.

As the Company generates cash from operations, it is invested in accordance with the Company's investment policy and corporate goals. The Company's investment policy has been designed to balance multiple goals, including the assurance of a stable source of income from interest and dividends, the preservation of principal, and the provision of liquidity sufficient to meet insurance underwriting and other obligations as they become payable in the

future. Securities purchased may include a combination of taxable bonds, tax-exempt bonds and equity securities. The Company also invests in short-term investments that include commercial paper, money-market funds and certificates of deposit. In addition, the Company holds other investments that are primarily investments in partnerships structured as limited liability companies. The Company strives to maintain a high quality investment portfolio. Interest and investment income levels are primarily a function of general market performance, interest rates and the amount of cash available for investment.

Interest and dividends remained virtually unchanged at \$1.1 million for the three months ended March 31, 2018 and 2017.

### Other Investment Income

Other Investment income consists primarily of income related to investments in unconsolidated affiliates typically structured as limited liability companies ("LLC's") and accounted for under either the equity method of accounting or the measurement alternative for investments that do not have readily determinable fair values. The measurement alternative method requires investments without readily determinable fair values to be recorded at cost, less impairments, and plus or minus any changes resulting from observable price changes. The Company monitors any events or changes in circumstances that may have had a significant adverse effect on the fair value of these investments and makes any necessary adjustments.

Other investment income was \$269 thousand for the three months ended March 31, 2018, compared with \$229 thousand for the same prior year period.

### Net Realized Investment Gains

Dispositions of equity securities at a realized gain or loss reflect such factors as industry sector allocation decisions, ongoing assessments of issuers' business prospects and tax planning considerations. Additionally, the amounts of net realized investment gains and losses are affected by assessments of securities' valuation for other-than-temporary impairment. As a result of the interaction of these factors and considerations, the net realized investment gain or loss can vary significantly from period to period.

The net realized gains on investments were \$153 thousand for the three months ended March 31, 2018, compared with \$103 thousand for the same prior year period. The net realized gains on investments for the three months ended March 31, 2018 and 2017 did not include any impairment charges. Management believes unrealized losses on remaining fixed maturity securities at March 31, 2018 are temporary in nature.

The securities in the Company's investment portfolio are subject to economic conditions and market risks. The Company considers relevant facts and circumstances in evaluating whether a credit or interest-related impairment of a security is other-than-temporary. Relevant facts and circumstances include the extent and length of time the fair value of an investment has been below cost.

There are a number of risks and uncertainties inherent in the process of monitoring impairments and determining if an impairment is other-than-temporary. These risks and uncertainties include the risk that the economic outlook will be worse than expected or have more of an impact on the issuer than anticipated; the risk that the Company's assessment of an issuer's ability to meet all of its contractual obligations will change based on changes in the characteristics of that issuer; the risk that information obtained by the Company or changes in other facts and circumstances leads management to change its intent to sell the debt security; and the risk that management is making decisions based on misstated information in the financial statements provided by issuers.

### Unrealized Loss on Equity Investments

The Company adopted Accounting Standards Update 2016-01, Financial Instruments, on January 1, 2018. Among other provisions, the update requires changes in fair value for equity securities to be recorded in net income. The net unrealized loss on equity securities for the three months ended March 31, 2018 was \$642 thousand