

INVESTORS TITLE CO  
Form 10-Q  
August 08, 2013

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2013

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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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(do not check if a smaller  
reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes      No   

As of July 16, 2013, there were 2,073,648 common shares of the registrant outstanding.

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INVESTORS TITLE COMPANY  
AND SUBSIDIARIES

INDEX

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements:

Consolidated Balance Sheets as of June 30, 2013 and December 31, 2012 1

Consolidated Statements of Income For the Three and Six Months Ended June 30, 2013 and 2012 2

Consolidated Statements of Comprehensive Income For the Three and Six Months Ended June 30, 2013 and 2012 3

Consolidated Statements of Stockholders' Equity For the Six Months Ended June 30, 2013 and 2012 4

Consolidated Statements of Cash Flows For the Six Months Ended June 30, 2013 and 2012 5

Notes to Consolidated Financial Statements 7

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 24

Item 3. Quantitative and Qualitative Disclosures About Market Risk 33

Item 4. Controls and Procedures 33

PART II. OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds 34

Item 6. Exhibits 35

SIGNATURE 36

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

Investors Title Company and Subsidiaries  
Consolidated Balance Sheets  
As of June 30, 2013 and December 31, 2012  
(Unaudited)

	June 30, 2013	December 31, 2012
Assets:		
Investments in securities:		
Fixed maturities, available-for-sale, at fair value (amortized cost: 2013: \$70,909,769; 2012: \$75,573,673)	\$ 75,228,040	\$ 81,936,978
Equity securities, available-for-sale, at fair value (cost: 2013: \$21,203,886; 2012: \$21,229,114)	31,208,595	28,510,933
Short-term investments	16,078,465	13,567,648
Other investments	7,216,155	6,763,100
Total investments	129,731,255	130,778,659
Cash and cash equivalents	26,402,136	20,810,018
Premium and fees receivable (less allowance for doubtful accounts: 2013: \$2,121,045; 2012: \$1,902,581)	10,807,083	11,037,714
Accrued interest and dividends	915,703	1,037,447
Prepaid expenses and other assets	8,053,251	4,651,115
Property, net	3,844,487	3,603,323
Current income taxes recoverable	771,419	—
Total Assets	\$ 180,525,334	\$ 171,918,276
Liabilities and Stockholders' Equity		
Liabilities:		
Reserves for claims	\$ 38,767,000	\$ 39,078,000
Accounts payable and accrued liabilities	16,825,629	15,477,545
Current income taxes payable	—	1,336,824
Deferred income taxes, net	2,647,827	893,156
Total liabilities	58,240,456	56,785,525
Commitments and Contingencies	—	—
Redeemable Noncontrolling Interest	485,025	493,861
Stockholders' Equity:		
Preferred stock (1,000,000 authorized shares; no shares issued)	—	—
Common stock - no par value (10,000,000 authorized shares; 2,073,648 and 2,043,359 shares issued and outstanding 2013 and 2012, respectively, excluding 291,676 shares for 2013 and 2012 of common stock held by the Company's subsidiary)	1	1
Retained earnings	112,538,851	105,820,459
Accumulated other comprehensive income	9,261,001	8,818,430
Total stockholders' equity	121,799,853	114,638,890

Total Liabilities and Stockholders' Equity	\$180,525,334	\$171,918,276
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See notes to the Consolidated Financial Statements.

1

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Investors Title Company and Subsidiaries  
 Consolidated Statements of Income  
 For the Three and Six Months Ended June 30, 2013 and 2012  
 (Unaudited)

	Three Months Ended June 30, 2013	2012	Six Months Ended June 30, 2013	2012
<b>Revenues:</b>				
Net premiums written	\$30,429,761	\$23,241,570	\$54,355,758	\$42,908,990
Investment income - interest and dividends	925,047	1,009,918	1,845,532	1,987,179
Net realized gain on investments	55,272	65,148	71,616	258,029
Other	2,283,320	1,763,689	4,268,767	3,340,401
<b>Total Revenues</b>	<b>33,693,400</b>	<b>26,080,325</b>	<b>60,541,673</b>	<b>48,494,599</b>
<b>Operating Expenses:</b>				
Commissions to agents	17,608,789	12,650,817	31,098,220	23,842,944
Provision for claims	996,870	361,107	607,812	1,992,466
Salaries, employee benefits and payroll taxes	6,248,492	5,489,107	12,398,153	10,479,739
Office occupancy and operations	1,011,050	1,037,835	2,059,715	1,964,873
Business development	453,653	404,718	878,686	798,165
Filing fees, franchise and local taxes	188,950	181,330	369,520	533,252
Premium and retaliatory taxes	530,524	474,486	971,047	889,280
Professional and contract labor fees	560,146	706,690	1,174,589	1,107,227
Other	224,876	154,534	362,463	321,813
<b>Total Operating Expenses</b>	<b>27,823,350</b>	<b>21,460,624</b>	<b>49,920,205</b>	<b>41,929,759</b>
<b>Income before Income Taxes</b>	<b>5,870,050</b>	<b>4,619,701</b>	<b>10,621,468</b>	<b>6,564,840</b>
<b>Provision for Income Taxes</b>	<b>1,846,000</b>	<b>1,247,000</b>	<b>3,211,000</b>	<b>1,760,000</b>
<b>Net Income</b>	<b>4,024,050</b>	<b>3,372,701</b>	<b>7,410,468</b>	<b>4,804,840</b>
<b>Less: Net Income Attributable to Redeemable Noncontrolling Interest</b>	<b>(18,375 )</b>	<b>(23,213 )</b>	<b>(28,063 )</b>	<b>(23,213 )</b>
<b>Net Income Attributable to the Company</b>	<b>\$4,005,675</b>	<b>\$3,349,488</b>	<b>\$7,382,405</b>	<b>\$4,781,627</b>
<b>Basic Earnings per Common Share</b>	<b>\$1.94</b>	<b>\$1.60</b>	<b>\$3.59</b>	<b>\$2.28</b>
<b>Weighted Average Shares Outstanding – Basic</b>	<b>2,063,797</b>	<b>2,098,666</b>	<b>2,054,300</b>	<b>2,099,751</b>
<b>Diluted Earnings per Common Share</b>	<b>\$1.92</b>	<b>\$1.57</b>	<b>\$3.54</b>	<b>\$2.24</b>
<b>Weighted Average Shares Outstanding – Diluted</b>	<b>2,089,674</b>	<b>2,132,732</b>	<b>2,087,229</b>	<b>2,131,164</b>
<b>Cash Dividends Paid per Common Share</b>	<b>\$0.08</b>	<b>\$0.07</b>	<b>\$0.16</b>	<b>\$0.14</b>

See notes to the Consolidated Financial Statements.



Investors Title Company and Subsidiaries  
Consolidated Statements of Comprehensive Income  
For the Three and Six Months Ended June 30, 2013 and 2012  
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income	\$4,024,050	\$3,372,701	\$7,410,468	\$4,804,840
Other comprehensive (loss) income, before tax:				
(Accretion) amortization related to prior year service cost	(379	) 2,349	(759	) 4,698
Amortization of unrecognized loss	1,574	170	3,147	340
Unrealized (losses) gains on investments arising during the period	(1,649,518	) (461,611	) 749,471	1,534,815
Reclassification adjustment for sale of securities included in net income	(70,857	) (141,687	) (105,686	) (334,568
Reclassification adjustment for write-down of securities included in net income	15,585	76,539	34,070	76,539
Other comprehensive (loss) income, before tax	(1,703,595	) (524,240	) 680,243	1,281,824
Income tax expense related to postretirement health benefits	408	856	813	1,713
Income tax (benefit) expense related to unrealized (losses) gains on investments arising during the year	(568,422	) (155,412	) 260,323	536,531
Income tax benefit related to reclassification adjustment for sale of securities included in net income	(24,609	) (55,280	) (36,598	) (121,336
Income tax expense related to reclassification adjustment for write-down of securities included in net income	6,007	26,265	13,134	26,265
Net income tax (benefit) expense on other comprehensive (loss) income	(586,616	) (183,571	) 237,672	443,173
Other comprehensive (loss) income	(1,116,979	) (340,669	) 442,571	838,651
Comprehensive Income	\$2,907,071	\$3,032,032	\$7,853,039	\$5,643,491
Less: Comprehensive income attributable to redeemable noncontrolling interest	(18,375	) (23,213	) (28,063	) (23,213
Comprehensive Income Attributable to the Company	\$2,888,696	\$3,008,819	\$7,824,976	\$5,620,278

See notes to the Consolidated Financial Statements.



Investors Title Company and Subsidiaries  
Consolidated Statements of Stockholders' Equity  
For the Six Months Ended June 30, 2013 and 2012  
(Unaudited)

	Common Stock		Retained	Accumulated Other Comprehensive	Total Stockholders'
	Shares	Amount	Earnings	Income	Equity
Balance, January 1, 2012	2,107,681	\$ 1	\$99,003,018	\$7,509,165	\$106,512,184
Net income attributable to the Company			4,781,627		4,781,627
Dividends (\$0.14 per share)			(294,048 )		(294,048 )
Shares of common stock repurchased and retired	(14,502 )		(626,885 )		(626,885 )
Stock options and stock appreciation rights exercised	6,130		152,792		152,792
Share-based compensation expense			36,947		36,947
Amortization related to postretirement health benefits				3,325	3,325
Net unrealized gain on investments				835,326	835,326
Balance, June 30, 2012	2,099,309	\$ 1	\$103,053,451	\$8,347,816	\$111,401,268
Balance, January 1, 2013	2,043,359	\$ 1	\$105,820,459	\$8,818,430	\$114,638,890
Net income attributable to the Company			7,382,405		7,382,405
Dividends (\$0.16 per share)			(329,569 )		(329,569 )
Shares of common stock repurchased and retired	(19,460 )		(1,378,131 )		(1,378,131 )
Stock options and stock appreciation rights exercised	49,749		68,032		68,032
Share-based compensation expense			40,092		40,092
Amortization related to postretirement health benefits				1,575	1,575
Net unrealized gain on investments				440,996	440,996
Income tax benefit from share-based compensation			935,563		935,563
Balance, June 30, 2013	2,073,648	\$ 1	\$112,538,851	\$9,261,001	\$121,799,853

See notes to the Consolidated Financial Statements.

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Investors Title Company and Subsidiaries  
 Consolidated Statements of Cash Flows  
 For the Six Months Ended June 30, 2013 and 2012  
 (Unaudited)

	Six Months Ended June 30,	
	2013	2012
<b>Operating Activities</b>		
Net income	\$7,410,468	\$4,804,840
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	292,732	232,009
Amortization, net	267,516	201,824
Amortization related to postretirement benefits obligation	2,388	5,038
Share-based compensation expense related to stock options	40,092	36,947
Increase in allowance for doubtful accounts on premiums receivable	218,464	481,000
Net loss (gain) on disposals of property	1,435	(16,782 )
Net realized gain on investments	(71,616 )	(258,029 )
Net earnings from other investments	(815,714 )	(694,906 )
Provision for claims	607,812	1,992,466
Provision for deferred income taxes	1,517,000	957,000
Excess tax benefits related to exercise of stock options and SARs	935,563	—
Changes in assets and liabilities:		
Decrease (increase) in receivables	12,167	(2,278,352 )
Increase in other assets	(3,367,497 )	(261,317 )
Increase in current income taxes recoverable	(771,419 )	(372,426 )
Increase (decrease) in accounts payable and accrued liabilities	1,698,084	(222,017 )
Decrease in current income taxes payable	(1,336,824 )	(640,533 )
Payments of claims, net of recoveries	(918,812 )	(2,441,466 )
Net cash provided by operating activities	5,721,839	1,525,296
<b>Investing Activities</b>		
Purchases of available-for-sale securities	(641,302 )	(10,435,418 )
Purchases of short-term securities	(3,835,960 )	(2,424,628 )
Purchases of other investments	(780,778 )	(2,265,523 )
Investment in/purchase of subsidiary	(350,000 )	(350,000 )
Proceeds from sales and maturities of available-for-sale securities	5,230,400	4,947,338
Proceeds from sales and maturities of short-term securities	1,325,143	8,115,946
Proceeds from sales and distributions of other investments	1,072,467	995,592
Proceeds from sales of other assets	25,308	204,750
Purchases of property	(538,466 )	(164,183 )
Proceeds from disposals of property	3,135	34,364
Net cash provided by (used in) investing activities	1,509,947	(1,341,762 )