

INVESTORS TITLE CO
Form 10-Q
November 05, 2007

**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 September 30, 2007

OR

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

For the transition period from _____ to _____

Commission File Number: 0-11774

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

North Carolina
(State of Incorporation)

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

121 North Columbia Street, Chapel Hill, North Carolina 27514
(Address of Principal Executive Offices) (Zip Code)

(919) 968-2200
(Registrant's Telephone Number Including
Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer Accelerated filer Non-accelerated filer

Edgar Filing: INVESTORS TITLE CO - Form 10-Q

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 October 25, 2007, there were 2,765,237 common shares of the registrant outstanding.

**INVESTORS TITLE COMPANY
AND SUBSIDIARIES**

INDEX

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements:

Consolidated Balance Sheets as of September 30, 2007 and December 31, 2006 1

Consolidated Statements of Income
For the Three and Nine Months Ended September 30, 2007 and 2006 2

Consolidated Statements of Stockholders' Equity
For the Nine Months Ended September 30, 2007 and 2006 3

Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2007 and 2006 4

Notes to Consolidated Financial Statements 5

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 11

Item 3. Quantitative and Qualitative Disclosures About Market Risk 21

Item 4. Controls and Procedures 21

PART II. OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds 22

Item 6. Exhibits 23

SIGNATURE. 24

Item 1. Financial Statements

Investors Title Company and Subsidiaries
Consolidated Balance Sheets
As of September 30, 2007 and December 31, 2006
(Unaudited)

	September 30, 2007	December 31, 2006
Assets		
Investments in securities:		
Fixed maturities:		
Held-to-maturity, at amortized cost (fair value: 2007: \$1,079,851; 2006: \$1,237,613)	\$ 1,052,204	\$ 1,195,617
Available-for-sale, at fair value (amortized cost: 2007: \$101,841,523; 2006: \$100,979,825)	102,528,677	101,954,292
Equity securities, available-for-sale, at fair value	13,888,652	12,495,923
Short-term investments	9,474,707	4,460,911
Other investments	1,654,542	1,473,303
Total investments	128,598,782	121,580,046
Cash and cash equivalents	2,855,600	3,458,432
Premiums and fees receivable, less allowance for doubtful accounts of \$2,052,000 and \$2,128,000 for 2007 and 2006, respectively	7,704,503	6,693,706
Accrued interest and dividends	1,157,567	1,336,790
Prepaid expenses and other assets	2,135,769	1,479,366
Property acquired in settlement of claims	294,538	303,538
Property, net	5,490,451	6,134,304
Deferred income taxes, net (Note 7)	1,875,142	2,530,196
Total Assets	\$ 150,112,352	\$ 143,516,378
Liabilities and Stockholders' Equity		
Liabilities:		
Reserves for claims (Note 2)	\$ 38,577,000	\$ 36,906,000
Accounts payable and accrued liabilities	10,207,584	10,537,992
Commissions and reinsurance payables	273,187	470,468
Current income taxes payable (Note 7)	-	326,255
Total liabilities	49,057,771	48,240,715
Commitments and Contingencies (Note 8)		

Stockholders' Equity:

Class A Junior Participating preferred stock (shares authorized 100,000; no shares issued)	-	-
Common stock-no par value (shares authorized 10,000,000; 2,482,472 and 2,507,325 shares issued and outstanding 2007 and 2006, respectively, excluding 291,676 shares for 2007 and 2006 of common stock held by the Company's subsidiary)	1	1
Retained earnings	97,531,759	92,134,608
Accumulated other comprehensive income (Note 3)	3,522,821	3,141,054
Total stockholders' equity	101,054,581	95,275,663
Total Liabilities and Stockholders' Equity	\$ 150,112,352	\$ 143,516,378

See notes to Consolidated Financial Statements.

Investors Title Company and Subsidiaries
Consolidated Statements of Income
For the Three and Nine Months Ended September 30, 2007 and 2006
(Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
Revenues:				
Underwriting income:				
Premiums written	\$ 19,035,187	\$ 18,347,342	\$ 54,625,924	\$ 54,315,786
Less-premiums for reinsurance ceded	40,734	104,666	212,750	317,893
Net premiums written	18,994,453	18,242,676	54,413,174	53,997,893
Investment income - interest and dividends	1,301,878	1,036,155	3,783,240	3,064,905
Net realized gain (loss) on sales of investments	521,008	(55,930)	887,211	488,527
Exchange services revenue (Note 5)	1,042,311	1,604,992	3,157,873	4,541,081
Other	1,199,333	894,441	3,258,787	2,935,397
Total	23,058,983	21,722,334	65,500,285	65,027,803
Operating Expenses:				
Commissions to agents	7,460,574	6,796,146	22,038,866	20,368,864
Provision for claims (Note 2)	2,363,841	1,992,901	8,525,279	5,878,592
Salaries, employee benefits and payroll taxes (Note 6)	5,136,337	4,918,008	15,501,851	14,865,309
Office occupancy and operations	1,284,093	1,234,013	4,173,117	3,917,797
Business development	478,397	552,401	1,558,313	1,581,132
Filing fees and taxes, other than payroll and income	177,917	196,639	469,585	490,346
Premium and retaliatory taxes	341,750	396,851	1,178,932	1,067,461
Professional and contract labor fees	606,308	555,189	2,077,458	1,904,933
Other	266,874	105,087	767,629	569,822
Total	18,116,091	16,747,235	56,291,030	50,644,256
Income Before Income Taxes	4,942,892	4,975,099	9,209,255	14,383,547
Provision For Income Taxes (Note 7)	1,085,000	1,303,030	1,875,000	3,521,000
Net Income	\$ 3,857,892	\$ 3,672,069	\$ 7,334,255	\$ 10,862,547
Basic Earnings Per Common Share (Note 4)	\$ 1.56	\$ 1.46	\$ 2.95	\$ 4.29

Weighted Average Shares				
Outstanding - Basic (Note 4)	2,480,951	2,517,691	2,488,287	2,534,883
Diluted Earnings Per Common				
Share (Note 4)	\$ 1.54	\$ 1.44	\$ 2.91	\$ 4.23
Weighted Average Shares				
Outstanding - Diluted (Note 4)	2,506,949	2,550,607	2,520,383	2,569,585

*See notes to Consolidated
Financial Statements.*

Investors Title Company and Subsidiaries
Consolidated Statements of Stockholders' Equity
For the Nine Months Ended September 30, 2007 and 2006
(Unaudited)

	Common Stock		Retained	Accumulated	Total
	Shares	Amount	Earnings	Other Comprehensive Income	Stockholders' Equity
Balance, December 31, 2005	2,549,434	\$ 1	\$ 81,477,022	\$ 2,820,233	\$ 84,297,256
Net income			10,862,547		10,862,547
Dividends (\$.18 per share)			(456,005)		(456,005)
Shares of common stock repurchased	(500)		(22,445)		(22,445)
Shares of common stock repurchased and retired	(49,107)		(2,130,841)		(2,130,841)
Issuance of common stock in payment of bonuses and fees	392		16,813		16,813
Stock options exercised	6,565		167,184		167,184
Share-based compensation expense			63,753		63,753
Change in investment accounting method			24,378		24,378
Net unrealized gain on investments				44,587	44,587
Balance, September 30, 2006	2,506,784	\$ 1	\$ 90,002,406	\$ 2,864,820	\$ 92,867,227
Balance, December 31, 2006	2,507,325	\$ 1	\$ 92,134,608	\$ 3,141,054	\$ 95,275,663
Net income			7,334,255		7,334,255
Dividends (\$.18 per share)			(447,447)		(447,447)
Shares of common stock repurchased and retired	(39,428)		(1,909,879)		(1,909,879)
Issuance of common stock in payment of bonuses and fees	40		1,998		1,998
Stock options exercised	14,535		351,062		351,062
Share-based compensation expense			67,162		67,162

Net unrealized gain on investments and retirement benefits, net of taxes					381,767	381,767
---	--	--	--	--	---------	---------

Balance, September 30, 2007	2,482,472	\$ 1	\$ 97,531,759	\$	3,522,821	\$ 101,054,581
--	------------------	-------------	----------------------	-----------	------------------	-----------------------

*See notes to
Consolidated Financial
Statements.*

3

Investors Title Company and Subsidiaries
Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2007 and 2006
(Unaudited)

	2007	2006
Operating Activities:		
Net income	\$ 7,334,255	\$ 10,862,547
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	907,791	803,632
Amortization on investments, net	199,871	140,236
Amortization of prior service cost	13,339	-
Issuance of common stock in payment of bonuses and fees	1,998	16,813
Share-based compensation expense related to stock options	67,162	63,753
Provision (benefit) for losses on premiums receivable	(76,000)	92,000
Net gain on disposals of property	(2,673)	(13,042)
Net realized gain on sales of investments	(887,211)	(488,527)
Provision for claims	8,525,279	5,878,592
Provision for deferred income taxes	456,000	428,000
Changes in assets and liabilities:		
(Increase) decrease in receivables and other assets	(1,402,977)	67,466
Increase in accounts payable and accrued liabilities	667,612	593,284
Decrease in commissions and reinsurance payables	(197,281)	(88,736)
Decrease in current income taxes payable	(326,255)	(820,535)
Payments of claims, net of recoveries	(6,854,279)	(4,258,592)
Net cash provided by operating activities	8,426,631	13,276,891
Investing Activities:		
Purchases of available-for-sale securities	(40,022,039)	(41,809,590)
Purchases of short-term securities	(7,138,060)	(71,631)
Purchases of and net earnings (losses) from other investments	(770,539)	(648,000)
Proceeds from sales and maturities of available-for-sale securities	38,897,536	18,086,066
Proceeds from maturities of held-to-maturity securities	149,000	456,000
Proceeds from sales and maturities of short-term securities	2,124,264	4,328,902

Proceeds from sales and distributions of other investments	995,924	444,480
Other investment transactions	-	(65,622)
Purchases of property	(389,201)	(1,474,540)
Proceeds from disposals of property	127,936	7,330
Other property transactions	-	23,685
Net change in pending trades	(998,020)	(763,247)
Net cash used in investing activities	(7,023,199)	(21,486,167)
Financing Activities:		
Repurchases of common stock, net	(1,909,879)	(2,153,286)
Exercise of options	351,062	167,184
Dividends paid	(447,447)	(456,005)
Net cash used in financing activities	(2,006,264)	(2,442,107)
Net Decrease in Cash and Cash Equivalents		
	(602,832)	(10,651,383)
Cash and Cash Equivalents, Beginning of Period	3,458,432	14,608,481
Cash and Cash Equivalents, End of Period	\$ 2,855,600	\$ 3,957,098
Supplemental Disclosures:		
Cash Paid During the Period for:		
Income Taxes, net of refunds	\$ 2,453,000	\$ 3,909,000
Non cash net unrealized (gain) loss on investments, net of deferred tax provision of \$194,517 and \$22,667 for 2007 and 2006, respectively	\$ 372,965	\$ 44,587

See notes to Consolidated Financial Statements.

**INVESTORS TITLE COMPANY
AND SUBSIDIARIES**
Notes to Consolidated Financial Statements

September 30, 2007

(Unaudited)

Note 1 - Basis of Presentation and Significant Accounting Policies

Reference should be made to the "Notes to Consolidated Financial Statements" of Investors Title Company's ("the Company") annual report on Form 10-K for the year ended December 31, 2006 for a complete description of the Company's significant accounting policies.

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

In the opinion of management, all adjustments considered necessary for a fair presentation of the financial position, results of operations and cash flows in the accompanying unaudited consolidated financial statements have been included. All such adjustments are of a normal recurring nature. Operating results for the three and the nine months ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ended December 31, 2007.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2006.

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

Reclassification - Certain 2006 amounts have been reclassified to conform to the 2007 classifications. These reclassifications had no effect on net income or stockholders' equity as previously reported.

Recently Issued Accounting Standards –In September 2006, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 157, “Fair Value Measurements” (“SFAS No. 157”). SFAS No. 157 establishes a common definition for fair value to be applied to GAAP guidance requiring use of fair value, establishes a framework for measuring fair value, and expands disclosure about such fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently assessing the impact of SFAS No. 157 on its consolidated financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities” (“SFAS No. 159”). This statement, which is expected to expand fair value measurement, permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently assessing the impact of SFAS No. 159 on its consolidated financial position and results of operations.

Note 2 - Reserves for Claims

Transactions in the reserves for claims for the nine months ended September 2007 and the year ended December 31, 2006 are summarized as follows:

	September 30, 2007	December 31, 2006
Balance, beginning of period	\$ 36,906,000	\$ 34,857,000
Provision, charged to operations	8,525,279	7,405,211
Payments of claims, net of recoveries	(6,854,279)	(5,356,211)
Ending balance	\$ 38,577,000	\$ 36,906,000

The total reserve for all reported and unreported losses the Company incurred through September 30, 2007 is represented by the reserves for claims. The Company's reserves for unpaid losses and loss adjustment expenses are established using estimated amounts required to settle claims for which notice has been received (reported) and the amount estimated to be required to satisfy incurred claims of policyholders which may be reported in the future. Despite the variability of such estimates, management believes that the reserves are adequate to cover claim losses which might result from pending and future claims for policies issued through September 30, 2007. The Company continually reviews and adjusts its reserve estimates to reflect its loss experience and any new information that becomes available. Adjustments resulting from such reviews may be significant.

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

Note 3 - Comprehensive Income

Total comprehensive income for the three months ended September 30, 2007 and 2006 was \$4,709,296 and \$4,926,511, respectively. Comprehensive income for the nine months ended September 30, 2007 and 2006 was \$7,716,022 and \$10,907,134, respectively. Other comprehensive income is comprised of changes in unrealized gains or losses on the Company's available-for-sale securities and amortization of prior service cost and unrecognized gains and losses in net periodic benefit costs related to postretirement benefit liabilities, net of taxes.

Note 4 - Earnings Per Common Share

Basic earnings per common share is computed by dividing net income by the weighted-average number of common shares outstanding during the reporting period. Diluted earnings per common share is computed by dividing net income by the combination of dilutive common share equivalents, 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 stock options and stock appreciation rights ("SARS"), which is calculated based on the average share price for each period using the treasury stock method. Under the treasury stock method, the exercise price of a stock option or SAR, the amount of compensation cost, if any, for future service that the Company has not yet recognized, and the amount of estimated tax benefits that would be recorded in additional paid-in capital, if any, when the stock option or SAR is exercised are assumed to be used to repurchase shares in the current period. There were 3,000 and 6,000 SARS excluded from the dilutive calculation for the three and nine months ended September 30, 2007, respectively, as these shares were anti-dilutive. There were no shares excluded from the calculation for the three or nine months ended September 30, 2006. The incremental dilutive common share equivalents, calculated using the treasury stock method were 25,998 and 32,916 for the three months ended September 30, 2007 and 2006, respectively, and 32,096 and 34,702 for the nine months ended September 30, 2007 and 2006, respectively.

Note 5 – Segment Information

Consistent with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," the Company has aggregated its operating segments into two reportable segments: 1) title insurance services; and 2) tax-deferred exchange services.

Three Months Ended September 30, 2007	Title Insurance	Exchange Services	All Other	Intersegment Eliminations	Total
Operating revenues	\$ 19,550,166	\$ 1,042,311	\$ 862,639	\$ (219,019)	\$ 21,236,097
Investment income	999,815	6,559	313,004	(17,500)	1,301,878
Net realized gain on sales of investments	148,818	-	372,190	-	521,008
Total revenues	\$ 20,698,799	\$ 1,048,870	\$ 1,547,833	\$ (236,519)	\$ 23,058,983
Operating expenses	17,105,864	347,751	881,495	(219,019)	18,116,091
Income before income taxes	\$ 3,592,935	\$ 701,119	\$ 666,338	\$ (17,500)	\$ 4,942,892
Assets, net	\$ 114,187,095	\$ 819,087	\$ 35,106,170	\$ -	\$ 150,112,352

Edgar Filing: INVESTORS TITLE CO - Form 10-Q

Three Months Ended September 30, 2006	Title Insurance	Exchange Services	All Other	Intersegment Eliminations	Total
Operating revenues	\$ 18,603,562	\$ 1,604,992	\$ 743,424	\$ (209,869)	\$ 20,742,109
Investment income	904,388	4,030	145,237	(17,500)	1,036,155
Net realized loss on sales of investments	(55,930)	-	-	-	(55,930)
Total revenues	\$ 19,452,020	\$ 1,609,022	\$ 888,661	\$ (227,369)	\$ 21,722,334
Operating expenses	15,900,745	395,864	660,495	(209,869)	16,747,235
Income before income taxes	\$ 3,551,275	\$ 1,213,158	\$ 228,166	\$ (17,500)	\$ 4,975,099
Assets, net	\$ 116,325,540	\$ 1,688,913	\$ 24,567,812	\$ -	\$ 142,582,265

Nine Months Ended September 30, 2007	Title Insurance	Exchange Services	All Other	Intersegment Eliminations	Total
Operating revenues	\$ 55,830,044	\$ 3,157,873	\$ 2,465,588	\$ (623,671)	\$ 60,829,834
Investment income	3,024,534	22,273	788,935	(52,502)	3,783,240
Net realized gain on sales of investments	480,587	-	406,624	-	887,211
Total revenues	\$ 59,335,165	\$ 3,180,146	\$ 3,661,147	\$ (676,173)	\$ 65,500,285
Operating expenses	53,219,102	1,112,500	2,583,099	(623,671)	56,291,030
Income before income taxes	\$ 6,116,063	\$ 2,067,646	\$		