

INVESTORS TITLE CO  
Form 10-Q  
August 08, 2016

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, 2016

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 18, 2016, there were 1,901,946 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 June 30, 2016 and December 31, 2015  
(Unaudited)

	June 30, 2016	December 31, 2015
Assets:		
Investments in securities:		
Fixed maturities, available-for-sale, at fair value (amortized cost: 2016: \$106,764,208; 2015: \$102,015,826)	\$ 113,672,233	\$ 106,066,384
Equity securities, available-for-sale, at fair value (cost: 2016: \$23,998,522; 2015: \$23,855,873)	38,961,905	37,513,464
Short-term investments	2,665,302	6,865,406
Other investments	9,240,525	10,106,828
Total investments	164,539,965	160,552,082
Cash and cash equivalents	22,619,643	21,790,068
Premium and fees receivable	8,027,953	8,392,697
Accrued interest and dividends	1,067,546	1,004,126
Prepaid expenses and other assets	7,709,195	12,634,105
Property, net	7,827,159	7,148,951
Current income taxes recoverable	1,767,406	—
Total Assets	\$213,558,867	\$211,522,029
Liabilities and Stockholders' Equity		
Liabilities:		
Reserves for claims	\$37,205,000	\$37,788,000
Accounts payable and accrued liabilities	18,393,997	25,043,588
Current income taxes payable	—	210,355
Deferred income taxes, net	9,772,206	5,703,006
Total liabilities	65,371,203	68,744,949
Commitments and Contingencies	—	—
Stockholders' Equity:		
Preferred stock (1,000,000 authorized shares; no shares issued)	—	—
Common stock – no par value (10,000,000 authorized shares; 1,916,216 and 1,949,797 shares issued and outstanding 2016 and 2015, respectively, excluding 291,676 shares for 1 2016 and 2015 of common stock held by the Company's subsidiary)	—	1
Retained earnings	133,878,480	131,186,866
Accumulated other comprehensive income	14,219,544	11,483,015
Total stockholders' equity attributable to the Company	148,098,025	142,669,882
Noncontrolling interests	89,639	107,198
Total stockholders' equity	148,187,664	142,777,080
Total Liabilities and Stockholders' Equity	\$213,558,867	\$211,522,029

See notes to the Consolidated Financial Statements.

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Investors Title Company and Subsidiaries  
 Consolidated Statements of Income  
 For the Three and Six Months Ended June 30, 2016 and 2015  
 (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
<b>Revenues:</b>				
Net premiums written	\$29,790,232	\$30,464,581	\$51,299,229	\$55,426,622
Investment income – interest and dividends	1,167,005	1,131,487	2,318,016	2,309,526
Net realized (loss) gain on investments	(14,828	) 925,164	135,002	939,967
Other	2,885,302	2,960,575	4,937,486	5,107,501
<b>Total Revenues</b>	<b>33,827,711</b>	<b>35,481,807</b>	<b>58,689,733</b>	<b>63,783,616</b>
<b>Operating Expenses:</b>				
Commissions to agents	15,674,346	16,898,691	27,207,228	31,495,230
Provision for claims	647,912	2,130,810	663,871	2,917,422
Salaries, employee benefits and payroll taxes	7,173,198	6,866,632	14,645,149	14,144,081
Office occupancy and operations	1,535,902	1,443,297	3,029,762	2,747,518
Business development	606,258	578,194	1,086,648	1,065,169
Filing fees, franchise and local taxes	267,103	221,098	497,157	437,741
Premium and retaliatory taxes	574,249	634,747	886,080	1,111,338
Professional and contract labor fees	537,446	680,483	1,076,099	1,264,590
Other	269,250	241,358	472,231	444,906
<b>Total Operating Expenses</b>	<b>27,285,664</b>	<b>29,695,310</b>	<b>49,564,225</b>	<b>55,627,995</b>
<b>Income before Income Taxes</b>	<b>6,542,047</b>	<b>5,786,497</b>	<b>9,125,508</b>	<b>8,155,621</b>
<b>Provision for Income Taxes</b>	<b>2,012,000</b>	<b>1,666,000</b>	<b>2,791,000</b>	<b>2,309,000</b>
<b>Net Income</b>	<b>4,530,047</b>	<b>4,120,497</b>	<b>6,334,508</b>	<b>5,846,621</b>
<b>Net (Gain) Loss Attributable to Noncontrolling Interests</b>	<b>(667</b>	<b>) —</b>	<b>8,912</b>	<b>—</b>
<b>Net Income Attributable to the Company</b>	<b>\$4,529,380</b>	<b>\$4,120,497</b>	<b>\$6,343,420</b>	<b>\$5,846,621</b>
<b>Basic Earnings per Common Share</b>	<b>\$2.36</b>	<b>\$2.06</b>	<b>\$3.29</b>	<b>\$2.91</b>
<b>Weighted Average Shares Outstanding – Basic</b>	<b>1,923,213</b>	<b>2,004,698</b>	<b>1,928,766</b>	<b>2,008,718</b>
<b>Diluted Earnings per Common Share</b>	<b>\$2.35</b>	<b>\$2.05</b>	<b>\$3.28</b>	<b>\$2.90</b>
<b>Weighted Average Shares Outstanding – Diluted</b>	<b>1,928,625</b>	<b>2,009,495</b>	<b>1,935,325</b>	<b>2,013,878</b>
<b>Cash Dividends Paid per Common Share</b>	<b>\$0.16</b>	<b>\$0.08</b>	<b>\$0.32</b>	<b>\$0.16</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, 2016 and 2015  
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income	\$4,530,047	\$4,120,497	\$6,334,508	\$5,846,621
Other comprehensive income (loss), before tax:				
Amortization related to prior year service cost	—	1,098	—	2,195
Amortization of unrecognized loss	2,235	878	4,470	1,757
Unrealized gains (losses) on investments arising during the period	3,075,089	(2,152,262)	4,287,614	(1,864,497)
Reclassification adjustment for sales of securities included in net income	(53,513)	(923,209)	(239,592)	(932,012)
Reclassification adjustment for write-downs of securities included in net income	72,444	11,149	115,238	11,149
Other comprehensive income (loss), before tax	3,096,255	(3,062,346)	4,167,730	(2,781,408)
Income tax expense related to postretirement health benefits	760	672	1,520	1,344
Income tax expense (benefit) related to unrealized gains (losses) on investments arising during the period	1,053,982	(739,627)	1,473,568	(636,089)
Income tax benefit related to reclassification adjustment for sales of securities included in net income	(18,372)	(314,742)	(83,232)	(317,751)
Income tax expense related to reclassification adjustment for write-downs of securities included in net income	24,677	3,800	39,345	3,800
Net income tax expense (benefit) on other comprehensive income (loss)	1,061,047	(1,049,897)	1,431,201	(948,696)
Other comprehensive income (loss)	2,035,208	(2,012,449)	2,736,529	(1,832,712)
Comprehensive Income	\$6,565,255	\$2,108,048	\$9,071,037	\$4,013,909
Comprehensive (income) loss attributable to noncontrolling interests	(667)	—	8,912	—
Comprehensive Income Attributable to the Company	\$6,564,588	\$2,108,048	\$9,079,949	\$4,013,909

See notes to the Consolidated Financial Statements.



Investors Title Company and Subsidiaries  
Consolidated Statements of Stockholders' Equity  
For the Six Months Ended June 30, 2016 and 2015  
(Unaudited)

	Common Stock		Retained	Accumulated	Noncontrolling	Total
	Shares	Amount	Earnings	Other	Interests	Stockholders'
				Comprehensive		Equity
				Income		
Balance, January 1, 2015	2,023,270	\$ 1	\$ 124,707,196	\$ 12,856,509	\$ —	\$ 137,563,706
Net income attributable to the Company			5,846,621			5,846,621
Dividends (\$0.16 per share)			(321,117 )			(321,117 )
Shares of common stock repurchased and retired	(24,432 )		(1,747,322 )			(1,747,322 )
Stock options and stock appreciation rights exercised	2,192		54,988			54,988
Share-based compensation expense			67,654			67,654
Amortization related to postretirement health benefits				2,608		2,608
Net unrealized loss on investments				(1,835,320 )		(1,835,320 )
Income tax benefit from share-based compensation			26,875			26,875
Balance, June 30, 2015	2,001,030	\$ 1	\$ 128,634,895	\$ 11,023,797	\$ —	\$ 139,658,693
Balance, January 1, 2016	1,949,797	\$ 1	\$ 131,186,866	\$ 11,483,015	\$ 107,198	\$ 142,777,080
Net income attributable to the Company			6,343,420			6,343,420
Dividends (\$0.32 per share)			(616,677 )			(616,677 )
Shares of common stock repurchased and retired	(34,870 )		(3,134,126 )			(3,134,126 )
Stock options and stock appreciation rights exercised	1,289		(200 )			(200 )
Share-based compensation expense			67,401			67,401
Amortization related to postretirement health benefits				2,950		2,950
Net unrealized gain on investments				2,733,579		2,733,579
Purchase of noncontrolling interest of subsidiary					(8,647 )	(8,647 )
Additional paid-in capital from purchase of noncontrolling interest of subsidiary			(496 )			(496 )
Net loss attributable to noncontrolling interests					(8,912 )	(8,912 )
Income tax benefit from share-based compensation			32,292			32,292
Balance, June 30, 2016	1,916,216	\$ 1	\$ 133,878,480	\$ 14,219,544	\$ 89,639	\$ 148,187,664

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, 2016 and 2015  
 (Unaudited)

	Six Months Ended June 30,	
	2016	2015
<b>Operating Activities</b>		
Net income	\$6,334,508	\$5,846,621
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	701,215	449,132
Amortization, net	408,010	364,520
Amortization related to postretirement benefits obligation	4,470	3,952
Share-based compensation expense related to stock options	67,401	67,654
Net loss (gain) on the disposals of property	9,314	(18,114 )
Net realized gain on investments	(135,002 )	(939,967 )
Net earnings from other investments	(463,829 )	(1,209,585 )
Provision for claims	663,871	2,917,422
Provision for deferred income taxes	2,638,000	625,000
Changes in assets and liabilities:		
Decrease (increase) in receivables	364,744	(836,421 )
Decrease (increase) in other assets	4,826,648	(202,641 )
Increase in current income taxes recoverable	(1,767,406 )	—
Decrease in accounts payable and accrued liabilities	(6,649,591 )	(1,390,662 )
(Decrease) increase in current income taxes payable	(210,355 )	331,716
Payments of claims, net of recoveries	(1,246,871 )	(1,469,422 )
Net cash provided by operating activities	5,545,127	4,539,205
<b>Investing Activities</b>		