INVESTORS TITLE CO
Form 10-Q
November 13, 2012
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2012

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 X 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 X 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 ___ (do not check if a smaller reporting company)	Smaller reporting company X

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 24, 2012, there were 2,062,854 common shares of the registrant outstanding.

INVESTORS TITLE COMPANY
AND SUBSIDIARIES

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Item 1. Financial Statements

Investors Title Company and Subsidiaries
Consolidated Balance Sheets
As of September 30, 2012 and December 31, 2011
(Unaudited)

	September 30, 2012	December 31, 2011
Assets:		
Investments in securities:		
Fixed maturities, available-for-sale, at fair value (amortized cost: 2012: $78,228,525; 2011: $78,783,968)	$85,167,066	$85,407,365
Equity securities, available-for-sale, at fair value (cost: 2012: $20,179,479; 2011: $17,652,745)	28,081,485	22,549,975
Short-term investments	11,231,113	14,112,262
Other investments	5,925,020	3,631,714
Total investments	130,404,684	125,701,316
Cash and cash equivalents	19,982,759	18,042,258
Premium and fees receivable (less allowance for doubtful accounts: 2012: $1,712,000; 2011: $1,218,000)	10,208,947	6,810,000
Accrued interest and dividends	919,443	1,108,156
Prepaid expenses and other assets	4,938,693	2,743,517
Property, net	3,555,510	3,553,216
Total Assets	$170,010,036	$157,958,463
Liabilities and Stockholders' Equity		
Liabilities:		
Reserves for claims	$39,006,000	$37,996,000
Accounts payable and accrued liabilities	13,869,604	12,330,383
Current income taxes payable	283,595	640,533
Deferred income taxes, net	2,701,940	479,363
Total liabilities	55,861,139	51,446,279
Commitments and Contingencies	—	—
Redeemable Noncontrolling Interest	550,193	—
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; 2,062,604 and 2,107,681 shares issued and outstanding 2012 and 2011, respectively, excluding 291,676 shares for 2012 and 2011 of common stock held by the Company's subsidiary)	1	1
Retained earnings	103,908,636	99,003,018
Accumulated other comprehensive income	9,690,067	7,509,165

Total stockholders’ equity	113,598,704	106,512,184
Total Liabilities and Stockholders’ Equity	$170,010,036	$157,958,463

See notes to the Consolidated Financial Statements.

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Investors Title Company and Subsidiaries
Consolidated Statements of Income
For the Three and Nine Months Ended September 30, 2012 and 2011
(Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	2012	2011
Revenues:				
Net premiums written	$29,018,123	$23,986,592	$71,927,113	$63,303,202
Investment income - interest and dividends	962,573	887,055	2,949,752	2,665,245
Net realized gain (loss) on investments	99,790	(200,087)	357,819	(79,172)
Other	2,196,922	1,443,310	5,537,323	3,968,828
Total Revenues	32,277,408	26,116,870	80,772,007	69,858,103
Operating Expenses:				
Commissions to agents	16,840,421	15,161,823	40,683,365	39,335,237
Provision for claims	2,432,057	349,672	4,424,523	2,301,259
Salaries, employee benefits and payroll taxes	5,597,634	4,778,542	16,077,373	14,110,213
Office occupancy and operations	954,876	919,681	2,919,749	2,836,068
Business development	488,401	363,731	1,286,566	1,123,517
Filing fees, franchise and local taxes	140,740	79,638	673,992	411,897
Premium and retaliatory taxes	423,626	459,711	1,312,906	1,368,168
Professional and contract labor fees	548,052	412,227	1,655,279	1,132,308
Other	133,686	130,380	455,499	392,959
Total Operating Expenses	27,559,493	22,655,405	69,489,252	63,011,626
Income before Income Taxes	4,717,915	3,461,465	11,282,755	6,846,477
Provision for Income Taxes	1,479,000	1,021,000	3,239,000	1,792,000
Net Income	3,238,915	2,440,465	8,043,755	5,054,477
Less: Net Income Attributable to Redeemable Noncontrolling Interests	80,730	—	103,943	—
Net Income Attributable to the Company	$3,158,185	$2,440,465	$7,939,812	$5,054,477
Basic Earnings per Common Share	$1.52	$1.15	$3.80	$2.34
Weighted Average Shares Outstanding – Basic	2,071,605	2,124,078	2,090,369	2,164,240
Diluted Earnings per Common Share	$1.50	$1.14	$3.74	$2.32
Weighted Average Shares Outstanding – Diluted	2,108,526	2,143,327	2,124,122	2,180,455
Cash Dividends Paid per Common Share	$0.07	$0.07	$0.21	$0.21

See notes to the Consolidated Financial Statements.

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Investors Title Company and Subsidiaries
Consolidated Statements of Comprehensive Income
For the Three and Nine Months Ended September 30, 2012 and 2011
(Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	2012	2011
Net income	$3,238,915	$2,440,465	$8,043,755	$5,054,477
Other comprehensive income, before tax:				
Amortization related to prior year service cost	2,349	(415)	7,047	9,779
Amortization of unrecognized loss (gain)	171	(1,525)	511	(239)
Unrealized gains (losses) on investments arising during the period	2,142,925	(1,217,304)	3,677,740	543,683
Reclassification adjustment for sale of securities included in net income	(99,790)	49,979	(434,358)	(179,309)
Reclassification adjustment for write-down of securities included in net income	—	150,109	76,539	258,481
Other comprehensive income (loss), before tax	2,045,655	(1,019,156)	3,327,479	632,395
Income tax expense (benefit) related to postretirement health benefits	858	(661)	2,571	3,244
Income tax expense (benefit) related to unrealized gains (losses) on investments arising during the year	737,122	(427,839)	1,273,653	170,908
Income tax (benefit) expense related to reclassification adjustment for sale of securities included in net income	(34,576)	17,377	(155,912)	(61,842)
Income tax expense related to reclassification adjustment for write-down of securities included in net income	—	51,613	26,265	89,888
Net income tax expense (benefit) on other comprehensive income	703,404	(359,510)	1,146,577	202,198
Other comprehensive income (loss)	1,342,251	(659,646)	2,180,902	430,197
Comprehensive income	4,581,166	1,780,819	10,224,657	5,484,674
Less: Comprehensive income attributable to redeemable noncontrolling interest	80,730	—	103,943	—
Comprehensive income attributable to the Company	$4,500,436	$1,780,819	$10,120,714	$5,484,674

See notes to the Consolidated Financial Statements.

Investors Title Company and Subsidiaries
Consolidated Statements of Stockholders' Equity
For the Nine Months Ended September 30, 2012 and 2011
(Unaudited)

	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance, January 1, 2011	2,282,596	$1	$98,240,109	$ 5,688,705	$103,928,815
Net income attributable to the Company			5,054,477		5,054,477
Dividends ($0.21 per share)			(450,822)		(450,822)
Shares of common stock repurchased and retired	(168,516)		(5,426,478)		(5,426,478)
Stock options exercised	7,550		152,526		152,526
Share-based compensation expense			159,783		159,783
Amortization related to postretirement health benefits				6,296	6,296
Net unrealized gain on investments				423,901	423,901
Balance, September 30, 2011	2,121,630	$1	$97,729,595	$ 6,118,902	$103,848,498
Balance, January 1, 2012	2,107,681	$1	$99,003,018	$ 7,509,165	$106,512,184
Net income attributable to the Company			7,939,812		7,939,812
Dividends ($0.21 per share)			(438,431)		(438,431)
Shares of common stock repurchased and retired	(51,207)		(2,804,412)		(2,804,412)
Stock options exercised	6,130		152,792		152,792
Share-based compensation expense			55,857		55,857
Amortization related to postretirement health benefits				4,987	4,987
Net unrealized gain on investments				2,175,915	2,175,915
Balance, September 30, 2012	2,062,604	$1	$103,908,636	$ 9,690,067	$113,598,704

See notes to the Consolidated Financial Statements

Investors Title Company and Subsidiaries

Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2012 and 2011
(Unaudited)

	2012	2011
Operating Activities		
Net income	$8,043,755	$5,054,477
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	348,334	360,820
Amortization, net	320,666	250,728
Amortization related to postretirement benefits obligation	7,558	9,540
Share-based compensation expense related to stock options	55,857	159,783
Increase (decrease) in allowance for doubtful accounts on premiums receivable	494,000	(115,000)
Net gain on disposals of property	(23,076)	(26,528)
Net realized (gain) loss on investments	(357,819)	79,172
Net earnings from other investments	(1,211,188)	(396,487)
Provision for claims	4,424,523	2,301,259
Provision for deferred income taxes	1,076,000	1,233,000
Changes in assets and liabilities:		
(Increase) decrease in receivables	(3,892,948)	762,755
(Increase) decrease in other assets	(524,563)	73,731
Increase in current income taxes recoverable	—	(506,717)
Increase in accounts payable and accrued liabilities	847,971	2,840,359
Decrease in current income taxes payable	(356,938)	(1,056,356)
Payments of claims, net of recoveries	(3,414,523)	(2,951,959)
Net cash provided by operating activities	5,837,609	8,072,577
Investing Activities		
Purchases of available-for-sale securities	(14,000,215)	(8,610,912)
Purchases of short-term securities	(5,434,469)	(4,592,762)
Purchases of other investments	(2,460,907)	(341,117)
Purchase of subsidiary	(350,000)	—
Proceeds from sales and maturities of available-for-sale securities	11,860,920	7,503,245
Proceeds from sales and maturities of short-term securities	8,315,618	10,072,820
Proceeds from sales and distributions of other investments	1,379,198	492,975
Proceeds from sale of other assets	204,750	—
Purchases of property	(373,045)	(328,138)
Proceeds from disposals of property	51,093	31,157
Net cash (used in) provided by investing activities	(807,057)	4,227,268
Financing Activities		
Repurchases of common stock	(2,804,412)	(5,426,478)
Exercise of options	152,792	152,526
Dividends paid	(438,431)	(450,822)
Net cash used in financing activities	(3,090,051)	(5,724,774)
Net Increase in Cash and Cash Equivalents	1,940,501	6,575,071
Cash and Cash Equivalents, Beginning of Period	18,042,258	8,117,031

Cash and Cash Equivalents, End of Period	$19,982,759	$14,692,102

Consolidated Statements of Cash Flows, continued

	2012	2011
Supplemental Disclosures:		
Cash Paid During the Year for:		
Income taxes, payments, net	$2,523,000	$2,125,000
Non-Cash Disclosures		
Non-cash net unrealized gain on investments, net of deferred tax provision of $(1,144,006) and $(198,953) for 2012 and 2011, respectively	$(2,175,915)	$ (423,901)
Non-cash intangible assets acquired from purchase of subsidiary	$(1,481,900)	$—
Non-cash contingent liability from purchase of subsidiary	$691,250	$—

See notes to the Consolidated Financial Statements.

INVESTORS TITLE COMPANY
AND SUBSIDIARIES
Notes to Consolidated Financial Statements
September 30, 2012
(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, 2011 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 generally accepted accounting principles 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 the redeemable noncontrolling interest are recorded on the Consolidated Statement of Income for majority-owned subsidiaries. The redeemable noncontrolling interest representing the portion of equity not related to the Company's ownership interest is recorded as redeemable equity in a separate section 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 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 September 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

Use of Estimates and Assumptions. The preparation of the Company's Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the 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. On November 12, 2002, the Company's Board of Directors adopted a shareholders' rights plan, pursuant to which the Board of Directors authorized and declared a dividend distribution of one stock purchase right for each outstanding share of common stock of the Company to stockholders of record at the close of business on December 2, 2002. Subsequently issued shares of common stock also carry stock purchase rights. Unless terminated or redeemed by the Board of Directors, the stock purchase rights become exercisable based upon certain limited conditions related to acquisitions of the Company's common stock, tender offers and certain business combinations involving the Company. On October 31, 2012, the shareholders' rights plan was amended to, among other things, extend the expiration date of the plan from November 11, 2012 to October 31, 2022 and increase the exercise price of the stock purchase rights from $80 per unit to $220 per unit. In connection with the amendments to the shareholders' rights plan, the Board of Directors of the Company also amended the Company's Articles of Incorporation to increase the number of shares designated under the rights plan as Series A Participating Preferred Stock from 100,000 shares to 200,000 shares.

Recently Issued Accounting Standards. In June 2011, the Financial Accounting Standards Board ("the FASB") updated requirements relating to the presentation of comprehensive income. The objectives of this accounting update are to facilitate convergence of GAAP and International Financial Reporting Standards ("IFRS"), to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. The main provisions of the guidance require that all nonowner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. For public entities, this update became effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company complied with this update, and it did not have an impact on the Company's financial condition or results of operations.

In May 2011, the FASB updated requirements for measuring and disclosing fair value information, resulting in common principles and requirements in accordance with GAAP and IFRS. For public entities, this guidance became effective during interim and annual periods beginning after December 15, 2011. The Company complied with this update, and it did not have an impact on the Company's financial condition or results of operations.

Pending Accounting Standards. In June 2011, the FASB updated requirements relating to the presentation of comprehensive income. In December 2011, the FASB issued a subsequent update to defer those changes in the June 2011 update that relate to the presentation of reclassification adjustments. All other requirements of the June 2011 update are not affected by the December 2011 update. The amendments are being made to allow the FASB time to redeliberate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented.

Note 2 - Reserves for Claims

Transactions in the reserves for claims for the nine months ended September 30, 2012 and the year ended December 31, 2011 are summarized as follows:

	September 30, 2012			December 31, 2011		
Balance, beginning of period	$	37,996,000		$	38,198,700	
Provision, charged to operations		4,424,523			3,342,427	
Payments of claims, net of recoveries		(3,414,523	)		(3,545,127	)
Ending balance	$	39,006,000		$	37,996,000	

The total reserve for all reported and unreported losses the Company incurred through September 30, 2012 is represented by the reserves for claims. The Company's reserves for unpaid losses and loss adjustment expenses are established using estimated amounts required to settle claims for which notice has been received (reported) and the amount estimated to be required to satisfy incurred claims of policyholders which may be reported in the future. Despite the variability of such estimates, management believes that the reserves are adequate to cover claim losses which might result from pending and future claims under policies issued through September 30, 2012. 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.

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

		September 30, 2012	%		December 31, 2011	%
Known title claims	$	5,925,874	15.2	$	6,233,501	16.4
IBNR		33,080,126	84.8		31,762,499	83.6
Total loss reserves	$	39,006,000	100.0	$	37,996,000	100.0

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

Note 3 - Earnings Per Common Share and Share Awards

Basic earnings per common share are computed by dividing net income by the weighted-average number of common shares outstanding during the reporting period. Diluted earnings per common share is computed by dividing net income by the combination of dilutive potential common stock, comprised of shares issuable under the Company’s share-based compensation plans and the weighted-average number of common shares outstanding during the reporting period. Dilutive common share equivalents 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; (b), the amount of compensation cost, if any, for future service that the Company has not yet recognized; and (c) the amount of estimated tax benefits that would be recorded in additional paid-in capital, if any, are assumed to be used to repurchase shares in the current period. The number of incremental dilutive potential common shares, calculated using the treasury stock method, was 36,921 and 19,249 for the three months ended September 30, 2012, and 2011, respectively, and 33,753 and 16,215 for the nine months ended September 30, 2012, and 2011, respectively.

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

	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Net income attributable to the Company	$ 3,158,185	$ 2,440,465	$ 7,939,812	$ 5,054,477
Weighted average common shares outstanding – Basic	2,071,605	2,124,078	2,090,369	2,164,240
Incremental shares outstanding assuming the exercise of dilutive stock options and SARs (share settled)	36,921	19,249	33,753	16,215
Weighted average common shares outstanding - Diluted	2,108,526	2,143,327	2,124,122	2,180,455
Basic earnings per common share	$ 1.52	$ 1.15	$ 3.80	$ 2.34
Diluted earnings per common share	$ 1.50	$ 1.14	$ 3.74	$ 2.32

There were 11,500 potential shares excluded from the computation of diluted earnings per share for both the three and nine month periods ended September 30, 2011, because these shares were anti-dilutive. These potential shares were anti-dilutive because the underlying share awards were out-of-the-money. There were no potential shares excluded from the computation of diluted earnings per share for either the three or nine month periods ended September 30, 2012.

The Company has adopted stock award plans under which restricted stock, and options or stock appreciation rights ("SARs") to acquire shares (not to exceed 500,000 shares) of the Company's stock may be granted to key employees or directors of the Company at a price not less than the market value on the date of grant. SARs and options (which have predominantly been incentive stock options) awarded under the plans thus far are exercisable and vest immediately or within one year or at 10% to 20% per year beginning on the date of grant and generally expire in five to ten years. All SARs issued to date have been share settled only. There have not been any SARs exercised in 2012 or 2011.

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

	Number Of Shares	Weighted Average Exercise Price	Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding as of January 1, 2011	110,800	$28.77	4.51	$353,955
SARs granted	3,000	41.50		
Options exercised	(7,700)	20.15		
Options/SARs cancelled/forfeited/expired	(4,500)	28.61		
Outstanding as of December 31, 2011	101,600	$29.81	3.91	$697,780
SARs granted	3,000	50.50		
Options exercised	(6,130)	24.93		
Options/SARs cancelled/forfeited/expired	(70)	31.00		
Outstanding as of September 30, 2012	98,400	$30.74	3.42	$3,394,561
Exercisable as of September 30, 2012	96,600	$30.43	3.38	$3,362,208
Unvested as of September 30, 2012	1,800	$47.27	5.82	$32,353

During both the second quarters of 2012 and 2011, the Company issued 3,000 share-settled SARs to the directors of the Company. SARs give the holder the right to receive stock equal to the appreciation in the value of shares of stock from the grant date for a specified period of time, and as a result, are accounted for as equity instruments. As such, these were valued using the Black-Scholes option valuation model. The fair value of each award is estimated on the date of grant using the Black-Scholes option valuation model with the weighted-average assumptions noted in the table shown below. Expected volatilities are based on both the implied and historical volatility of the Company's stock. The Company uses historical data to project SAR exercises and pre-exercise forfeitures within the valuation model. The expected term of awards represents the period of time that SARs granted are expected to be outstanding. The interest rate for periods during the expected life of the award is based on the U.S. Treasury yield curve in effect at the time of the grant. The weighted-average fair values for the SARs issued during 2012 and 2011 were $18.84 and $15.55, respectively, and were estimated using the weighted-average assumptions shown in the table below.

	2012	2011
Expected Life in Years	5.0	5.0
Volatility	44.6 %	43.6 %
Interest Rate	0.8 %	1.9 %
Yield Rate	0.6 %	0.8 %

There was approximately $56,000 and $160,000 of compensation expense relating to SARs or options vesting on or before September 30, 2012 and 2011, respectively, included in salaries, employee benefits and payroll taxes in the Consolidated Statements of Income for the nine months ended September 30, 2012 and 2011, respectively. As of September 30, 2012, there was approximately $43,000 of total unrecognized compensation cost related to unvested share-based compensation arrangements granted under the Company's stock award plans. That cost is expected to be recognized over a weighted-average period of approximately 5 months.

There have been no stock options or SARs granted where the exercise price was less than the market price on the date of grant.

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.

The following table shows selected financial information about the Company's operations by segment for the periods ended September 30, 2012 and 2011:

Three Months Ended September 30, 2012	Title Insurance	All Other	Intersegment Eliminations	Total
Operating revenues	$30,429,446	$1,356,733	$ (571,134)	$31,215,045
Investment income	832,241	150,749	(20,417)	962,573
Net realized gain on investments	85,560	14,230	—	99,790
Total revenues	$31,347,247	$1,521,712	$ (591,551)	$32,277,408
Operating expenses	27,086,970	1,026,236	(553,713)	27,559,493
Income before income taxes	$4,260,277	$495,476	$ (37,838)	$4,717,915
Total assets	$132,713,703	$37,296,333	$ —	$170,010,036

Three Months Ended September 30, 2011	Title Insurance	All Other	Intersegment Eliminations	Total
Operating revenues	$24,501,862	$1,128,526	$ (200,486)	$25,429,902
Investment income	783,495	123,977	(20,417)	887,055
Net realized loss on investments	(179,016)	(21,071)	—	(200,087)
Total revenues	$25,106,341	$1,231,432	$ (220,903)	$26,116,870
Operating expenses	21,620,657	1,235,234	(200,486)	22,655,405
Income (loss) before income taxes	$3,485,684	$(3,802)	$ (20,417)	$3,461,465
Total assets	$118,905,284	$36,591,725	$ —	$155,497,009

Nine Months Ended September 30, 2012	Title Insurance	All Other	Intersegment Eliminations	Total
Operating revenues	$74,967,470	$3,635,577	$ (1,138,611)	$77,464,436
Investment income	2,566,875	444,129	(61,252)	2,949,752
Net realized gain on investments	182,249	175,570	—	357,819
Total revenues	$77,716,594	$4,255,276	$ (1,199,863)	$80,772,007
Operating expenses	66,772,534	3,820,487	(1,103,769)	69,489,252
Income before income taxes	$10,944,060	$434,789	$ (96,094)	$11,282,755
Total assets	$132,713,703	$37,296,333	$ —	$170,010,036

Nine Months Ended September 30, 2011	Title Insurance	All Other	Intersegment Eliminations	Total
Operating revenues	$64,498,303	$3,383,112	$ (609,385)	$67,272,030
Investment income	2,348,441	378,056	(61,252)	2,665,245
Net realized loss on investments	(54,407)	(24,765)	—	(79,172)
Total revenues	$66,792,337	$3,736,403	$ (670,637)	$69,858,103
Operating expenses	59,758,416	3,862,595	(609,385)	63,011,626
Income (loss) before income taxes	$7,033,921	$(126,192)	$ (61,252)	$6,846,477
Total assets	$118,905,284	$36,591,725	$ —	$155,497,009

Note 5 – Retirement Agreements and Other Postretirement Benefits

On November 17, 2003, the Company’s subsidiary, Investors Title Insurance Company, entered into employment agreements with key executives that provide for the continuation of certain employee benefits and other payments due under the agreements upon retirement totaling $6,163,000 and $5,740,000 as of September 30, 2012 and December 31, 2011, 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 table sets forth the net periodic benefits cost for the executive benefits for the periods ended September 30, 2012 and 2011:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
Service cost – benefits earned during the year	$ 3,155	$ 1,778	$ 9,463	$ 14,627
Interest cost on the projected benefit obligation	6,966	3,077	20,900	18,455
Amortization of unrecognized prior service cost	2,349	(415)	7,047	9,779
Amortization of unrecognized losses (gains)	171	(1,525)	511	(239)
Net periodic benefits costs	$ 12,641	$ 2,915	$ 37,921	$ 42,622

Note 6 - Fair Value Measurement

Valuation of Financial Assets and Liabilities

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

Debt and Equity Securities

The Level 1 category includes equity securities that are measured at fair value using quoted active market prices and money market mutual funds valued at transacted amounts.

The Level 2 category includes fixed maturity investments such as corporate bonds, U.S. government and agency bonds and municipal bonds. Their fair value is principally based on market values obtained from a third party pricing service. Factors that are used in determining their 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 the 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 Accounting Standards Codification ("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 September 30, 2012 and December 31, 2011, 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 were classified as Level 2 because the third party pricing service from which the Company has obtained fair values for these instruments uses valuation models which use observable market inputs in addition to traded 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.

The Level 3 category only includes the Company's investments in student loan auction rate securities ("ARS") because quoted prices were unavailable due to the failure of auctions. Some of the inputs to this model are unobservable in the market and are significant—therefore, the Company utilizes another third party pricing service to assist in the determination of the fair market value of these securities on a quarterly basis. That service uses a proprietary valuation model that considers factors such as: the financial standing of the issuer; reported prices and the extent of public trading in similar financial instruments of the issuer or comparable companies; the ability of the issuer to obtain required financing; changes in the economic conditions affecting the issuer; pricing by other dealers in similar securities; time to maturity; and interest rates. The following table summarizes some key assumptions the service used to determine fair value as of September 30, 2012 and December 31, 2011:

	2012		2011	
Cumulative probability of earning maximum rate until maturity	0.0	%	0.0-0.1	%
Cumulative probability of principal returned prior to maturity	95.9-96.0	%	95.4-98.7	%
Cumulative probability of default at some future point	4.0-4.1	%	1.3-4.6	%
Liquidity risk premium	4.5	%	4.5-5.0	%

Significant increases or decreases in any of the inputs in isolation would result in significant changes to the fair value measurement. Generally, increases in default probabilities and liquidity risk premiums lower the fair market value while increases in the principal being returned and interest rates increase fair market values.

Based upon these inputs and assumptions, the pricing service provides a range of values to the Company for its ARS. The Company records the fair value based on the midpoint of the range. The Company believes that the midpoint valuation is the most reasonable estimate of fair value. On a quarterly basis, the Company reviews the valuation for significant changes in quarter over quarter values compared with changes to the current market and economic environments. In 2012 and 2011, the difference in the low and high values of the ranges was between approximately three and four percent of the carrying value of the Company's ARS.

The Company's ARS portfolio is comprised entirely of investment grade student loan ARS. The par value of these securities was $3,000,000 and $5,000,000 as of September 30, 2012 and December 31, 2011, respectively, with approximately 97.0% and 79.6% as of September 30, 2012 and December 31, 2011, respectively, guaranteed by the U.S. Department of Education.

The following table presents, by level, investments carried at fair value measured on a recurring basis as of September 30, 2012 and December 31, 2011. The table does not include cash on hand and also does not include assets which are measured at historical cost or any basis other than fair value.

As of September 30, 2012	Level 1	Level 2	Level 3	Total
Short-term investments	$11,231,113	$—	$—	$11,231,113
Equity securities				
Common stock and nonredeemable preferred stock	28,081,485	—	—	28,081,485
Fixed maturities				
Obligations of states and political subdivisions*	—	63,463,568	—	63,463,568
Corporate debt securities*	—	18,931,598	2,771,900	21,703,498
Total	$39,312,598	$82,395,166	$2,771,900	$124,479,664

As of December 31, 2011	Level 1	Level 2	Level 3	Total
Short-term investments	$14,112,262	$—	$—	$14,112,262
Equity securities				
Common stock and nonredeemable preferred stock	22,549,975	—	—	22,549,975
Fixed maturities				
Obligations of states and political subdivisions*	—	67,612,793	1,834,700	69,447,493
Corporate debt securities*	—	13,242,172		