INVESTORS TITLE CO
Form 10-Q
May 10, 2018

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 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 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, 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	X
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.

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
Assets		
Cash and cash equivalents	$22,174	$ 20,214
Investments:		
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
Liabilities and Stockholders' Equity		
Liabilities:		
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	—	—
Stockholders' Equity:		
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.

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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	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income	Noncontrolling Interests	Total Stockholders' Equity
Balance, January 1, 2017	1,884	$ —	$ 143,284	$ 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	$ —	$ 147,405	$ 12,801	$ 81	$ 160,287
Balance, January 1, 2018	1,886	$ —	$ 161,891	$ 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	$ —	$ 178,971	$ 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
Operating Activities		
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
Investing Activities		
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)
Financing Activities		
Repurchases of common stock	(29)	(9)
Exercise of stock appreciation rights	(1)	(1)
Dividends paid	(755)	(377)

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

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.

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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 consideratio