

INVESTORS TITLE CO  
Form 10-Q  
August 07, 2015

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, 2015

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 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 15, 2015, there were 2,000,255 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, 2015 and December 31, 2014  
 (Unaudited)

|  | June 30,<br>2015 | December 31,<br>2014 |
|--|------------------|----------------------|
| Assets:  |                  |                      |
| Investments in securities:   |                  |                      |
| Fixed maturities, available-for-sale, at fair value (amortized cost: 2015: \$98,460,680; 2014: \$104,421,050)  | \$ 101,686,777   | \$ 109,048,290       |
| Equity securities, available-for-sale, at fair value (cost: 2015: \$24,495,731; 2014: \$24,128,753)  | 38,237,742       | 39,254,981           |
| Short-term investments   | 8,588,140        | 2,576,993            |
| Other investments  | 8,397,014        | 8,530,929            |
| Total investments  | 156,909,673      | 159,411,193          |
| Cash and cash equivalents  | 18,823,257       | 15,826,515           |
| Premium and fees receivable  | 9,380,604        | 8,544,183            |
| Accrued interest and dividends   | 1,039,031        | 1,063,837            |
| Prepaid expenses and other assets  | 7,925,283        | 7,732,677            |
| Property, net  | 6,121,707        | 5,460,805            |
| Total Assets   | \$ 200,199,555   | \$ 198,039,210       |
| Liabilities and Stockholders' Equity   |                  |                      |
| Liabilities:   |                  |                      |
| Reserves for claims  | \$ 38,125,000    | \$ 36,677,000        |
| Accounts payable and accrued liabilities   | 16,900,157       | 18,290,819           |
| Current income taxes payable   | 423,908          | 92,192               |
| Deferred income taxes, net   | 5,091,797        | 5,415,493            |
| Total liabilities  | 60,540,862       | 60,475,504           |
| 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; 2,001,030 and 2,023,270 shares issued and outstanding 2015 and 2014, respectively, excluding 291,676 shares for 2015 and 2014 of common stock held by the Company's subsidiary) | 1                | 1                    |
| Retained earnings  | 128,634,895      | 124,707,196          |
| Accumulated other comprehensive income   | 11,023,797       | 12,856,509           |
| Total stockholders' equity   | 139,658,693      | 137,563,706          |
| Total Liabilities and Stockholders' Equity   | \$ 200,199,555   | \$ 198,039,210       |

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, 2015 and 2014  
 (Unaudited)

|  | Three Months Ended<br>June 30, |                    | Six Months Ended<br>June 30, |                    |
|--|--------------------------------|--------------------|------------------------------|--------------------|
|  | 2015                           | 2014               | 2015                         | 2014               |
| <b>Revenues:</b>   |                                |                    |                              |                    |
| Net premiums written   | \$30,464,581                   | \$29,849,853       | \$55,426,622                 | \$54,759,105       |
| Investment income - interest and dividends                           | 1,131,487                      | 1,039,435          | 2,309,526                    | 2,065,851          |
| Net realized gain on investments                                     | 925,164                        | 92,082             | 939,967                      | 584,219            |
| Other  | 2,960,575                      | 2,240,183          | 5,107,501                    | 4,266,452          |
| <b>Total Revenues</b>  | <b>35,481,807</b>              | <b>33,221,553</b>  | <b>63,783,616</b>            | <b>61,675,627</b>  |
| <b>Operating Expenses:</b>   |                                |                    |                              |                    |
| Commissions to agents  | 16,898,691                     | 18,346,381         | 31,495,230                   | 33,802,659         |
| Provision for claims   | 2,130,810                      | 294,281            | 2,917,422                    | 2,669,664          |
| Salaries, employee benefits and payroll taxes                        | 6,866,632                      | 6,454,930          | 14,144,081                   | 12,640,691         |
| Office occupancy and operations                                      | 1,443,297                      | 1,246,644          | 2,747,518                    | 2,426,971          |
| Business development   | 578,194                        | 511,763            | 1,065,169                    | 1,029,657          |
| Filing fees, franchise and local taxes                               | 221,098                        | 225,343            | 437,741                      | 414,943            |
| Premium and retaliatory taxes  | 634,747                        | 546,091            | 1,111,338                    | 840,565            |
| Professional and contract labor fees                                 | 680,483                        | 666,909            | 1,264,590                    | 1,354,967          |
| Other  | 241,358                        | 250,167            | 444,906                      | 459,951            |
| <b>Total Operating Expenses</b>                                      | <b>29,695,310</b>              | <b>28,542,509</b>  | <b>55,627,995</b>            | <b>55,640,068</b>  |
| <b>Income before Income Taxes</b>                                    | <b>5,786,497</b>               | <b>4,679,044</b>   | <b>8,155,621</b>             | <b>6,035,559</b>   |
| <b>Provision for Income Taxes</b>                                    | <b>1,666,000</b>               | <b>1,281,000</b>   | <b>2,309,000</b>             | <b>1,652,000</b>   |
| <b>Net Income</b>  | <b>4,120,497</b>               | <b>3,398,044</b>   | <b>5,846,621</b>             | <b>4,383,559</b>   |
| <b>Net Income Attributable to Redeemable Noncontrolling Interest</b> | <b>—</b>                       | <b>(24,446 )</b>   | <b>—</b>                     | <b>(23,523 )</b>   |
| <b>Net Income Attributable to the Company</b>                        | <b>\$4,120,497</b>             | <b>\$3,373,598</b> | <b>\$5,846,621</b>           | <b>\$4,360,036</b> |
| <b>Basic Earnings per Common Share</b>                               | <b>\$2.06</b>                  | <b>\$1.66</b>      | <b>\$2.91</b>                | <b>\$2.14</b>      |
| <b>Weighted Average Shares Outstanding – Basic</b>                   | <b>2,004,698</b>               | <b>2,034,931</b>   | <b>2,008,718</b>             | <b>2,036,047</b>   |
| <b>Diluted Earnings per Common Share</b>                             | <b>\$2.05</b>                  | <b>\$1.65</b>      | <b>\$2.90</b>                | <b>\$2.14</b>      |
| <b>Weighted Average Shares Outstanding – Diluted</b>                 | <b>2,009,495</b>               | <b>2,039,202</b>   | <b>2,013,878</b>             | <b>2,041,268</b>   |
| <b>Cash Dividends Paid per Common Share</b>                          | <b>\$0.08</b>                  | <b>\$0.08</b>      | <b>\$0.16</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, 2015 and 2014  
(Unaudited)

|  | Three Months Ended |             | Six Months Ended |             |
|--|--------------------|-------------|------------------|-------------|
|  | June 30,           |             | June 30,         |             |
|  | 2015               | 2014        | 2015             | 2014        |
| Net income   | \$4,120,497        | \$3,398,044 | \$5,846,621      | \$4,383,559 |
| Other comprehensive (loss) income, before tax:   |                    |             |                  |             |
| Amortization related to prior year service cost  | 1,098              | 555         | 2,195            | 1,109       |
| Amortization of unrecognized loss  | 878                | —           | 1,757            | —           |
| Unrealized (losses) gains on investments arising during the period   | (2,152,262 )       | 2,208,475   | (1,864,497 )     | 2,984,115   |
| Reclassification adjustment for sales of securities included in net income                                     | (923,209 )         | (68,364 )   | (932,012 )       | (833,636 )  |
| Reclassification adjustment for write-downs of securities included in net income                               | 11,149             | —           | 11,149           | —           |
| Other comprehensive (loss) income, before tax  | (3,062,346 )       | 2,140,666   | (2,781,408 )     | 2,151,588   |
| Income tax expense related to postretirement health benefits   | 672                | 189         | 1,344            | 377         |
| Income tax (benefit) expense related to unrealized (losses) gains on investments arising during the year       | (739,627 )         | 761,231     | (636,089 )       | 1,031,035   |
| Income tax benefit related to reclassification adjustment for sales of securities included in net income       | (314,742 )         | (23,213 )   | (317,751 )       | (285,750 )  |
| Income tax expense related to reclassification adjustment for write-downs of securities included in net income | 3,800              | —           | 3,800            | —           |
| Net income tax (benefit) expense on other comprehensive (loss) income  | (1,049,897 )       | 738,207     | (948,696 )       | 745,662     |
| Other comprehensive (loss) income  | (2,012,449 )       | 1,402,459   | (1,832,712 )     | 1,405,926   |
| Comprehensive Income   | \$2,108,048        | \$4,800,503 | \$4,013,909      | \$5,789,485 |
| Comprehensive income attributable to redeemable noncontrolling interest  | —                  | (24,446 )   | —                | (23,523 )   |
| Comprehensive Income Attributable to the Company   | \$2,108,048        | \$4,776,057 | \$4,013,909      | \$5,765,962 |

See notes to the Consolidated Financial Statements.



Investors Title Company and Subsidiaries  
Consolidated Statements of Stockholders' Equity  
For the Six Months Ended June 30, 2015 and 2014  
(Unaudited)

|  | Common Stock |        | Retained Earnings | Accumulated Other Comprehensive Income | Total Stockholders' Equity |
|--|--------------|--------|-------------------|--|----------------------------|
|  | Shares       | Amount |                   |  |                            |
| Balance, January 1, 2014                                     | 2,037,135    | \$ 1   | \$ 116,714,749    | \$ 11,347,404                          | \$ 128,062,154             |
| Net income attributable to the Company                       |              |        | 4,360,036         |  | 4,360,036                  |
| Dividends (\$0.16 per share)                                 |              |        | (325,822 )        |  | (325,822 )                 |
| Shares of common stock repurchased and retired               | (8,823 )     |        | (584,121 )        |  | (584,121 )                 |
| Stock options and stock appreciation rights exercised        | 1,507        |        | 27,100            |  | 27,100                     |
| Share-based compensation expense                             |              |        | 55,083            |  | 55,083                     |
| Amortization related to postretirement health benefits       |              |        |                   | 732                                    | 732                        |
| Net unrealized gain on investments                           |              |        |                   | 1,405,194                              | 1,405,194                  |
| Purchase of redeemable noncontrolling interest of subsidiary |              |        | (114,320 )        |  | (114,320 )                 |
| Income tax benefit from share-based compensation             |              |        | 15,999            |  | 15,999                     |
| Balance, June 30, 2014                                       | 2,029,819    | \$ 1   | \$ 120,148,704    | \$ 12,753,330                          | \$ 132,902,035             |
| 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             |

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, 2015 and 2014  
 (Unaudited)

|   | Six Months Ended June 30, |              |
|---|---------------------------|--------------|
|   | 2015                      | 2014         |
| <b>Operating Activities</b>   |                           |              |
| Net income  | \$5,846,621               | \$4,383,559  |
| Adjustments to reconcile net income to net cash provided by operating activities: |                           |              |
| Depreciation  | 449,132                   | 406,133      |
| Amortization, net   | 364,520                   | 301,398      |
| Amortization related to postretirement benefits obligation                        | 3,952                     | 1,109        |
| Share-based compensation expense related to stock options                         | 67,654                    | 55,083       |
| Net gain on the disposals of property   | (18,114 )                 | (1,900 )     |
| Net realized gain on investments  | (939,967 )                | (584,219 )   |
| Net earnings from other investments   | (1,209,585 )              | (684,781 )   |
| Provision for claims  | 2,917,422                 | 2,669,664    |
| Provision for deferred income taxes   | 625,000                   | 737,000      |
| Changes in assets and liabilities:  |                           |              |
| (Increase) decrease in receivables  | (836,421 )                | 119,308      |
| Increase in other assets  | (202,641 )                | (1,003,088 ) |
| Increase in current income taxes recoverable                                      | —                         | (1,512,452 ) |
| Decrease in accounts payable and accrued liabilities                              | (1,390,662 )              | (3,098,494 ) |
| Increase in current income taxes payable  | 331,716                   | —            |
| Payments of claims, net of recoveries   | (1,469,422 )              | (2,401,664 ) |
| Net cash provided by (used in) operating activities                               | 4,539,205                 | (613,344 )   |
| <b>Investing Activities</b>   |                           |              |
| Purchases of available-for-sale securities  | (3,471,184 )              | (5,184,440 ) |
| Purchases of short-term investments   | (6,307,977 )              | (3,770,868 ) |
| Purchases of other investments  | (858,464 )                | (786,575 )   |
| Proceeds from sales and maturities of available-for-sale securities               | 9,655,760                 | 6,319,047    |
| Proceeds from sales and maturities of short-term investments                      | 296,830                   | 2,001,533    |
| Proceeds from sales and distributions of other investments                        | 2,201,964                 | 494,365      |
| Proceeds from sales of other assets   | 19,104                    | 26,233       |
| Purchase of redeemable noncontrolling interest of subsidiary                      | —                         | (515,275 )   |
| Purchases of property   | (1,144,333 )              | (1,062,550 ) |
| Proceeds from the sale of property  | 52,413                    | 1,900        |
| Net cash provided by (used in) investing activities                               | 444,113                   | (2,476,630 ) |
| <b>Financing Activities</b>   |                           |              |
| Repurchases of common stock   | (1,747,322 )              | (584,121 )   |
| Exercises of stock options and SARs   | 54,988                    | 27,100       |
| Distributions to noncontrolling interest  | —                         | (168,057 )   |
| Excess tax benefits related to exercise of stock options and SARs                 | 26,875                    | 15,999       |
| Dividends paid  | (321,117 )                | (325,822 )   |
| Net cash used in financing activities   | (1,986,576 )              | (1,034,901 ) |
| Net Increase (Decrease) in Cash and Cash Equivalents                              | 2,996,742                 | (4,124,875 ) |

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|  |              |              |
|--|--------------|--------------|
| Cash and Cash Equivalents, Beginning of Period | 15,826,515   | 23,626,761   |
| Cash and Cash Equivalents, End of Period       | \$18,823,257 | \$19,501,886 |

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Consolidated Statements of Cash Flows, continued

|   | Six Months Ended June 30, |                |
|---|---------------------------|----------------|
|   | 2015                      | 2014           |
| Supplemental Disclosures:   |                           |                |
| Cash Paid During the Year for:  |                           |                |
| Income tax payments, net  | \$ 1,329,000              | \$ 2,414,900   |
| Non Cash Investing and Financing Activities   |                           |                |
| Non cash net unrealized loss (gain) on investments, net of deferred tax benefit<br>(provision) of \$950,040 and \$(745,285) for 2015 and 2014, respectively | \$ 1,835,320              | \$(1,405,194 ) |

See notes to the Consolidated Financial Statements.

INVESTORS TITLE COMPANY  
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2015

(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, 2014 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 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 Company's redeemable noncontrolling interest in a majority-owned insurance agency are recorded in the Consolidated Statements of Income. 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 June 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015.

Allowance for Doubtful Accounts – Company management continually evaluates the collectability of receivables and provides an allowance for doubtful accounts equal to estimated losses expected to be incurred in the collection of premiums and fees receivable.

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 – The Company has concluded that there was a subsequent event related to an agency relationship. This is discussed further in Note 8. There were no other subsequent events requiring adjustment to or disclosure in the Consolidated Financial Statements.

Recently Issued Accounting Standards – In February 2015, the Financial Accounting Standards Board (“FASB”) updated guidance to change the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. All legal entities are subject to reevaluation under the revised consolidation model. Specifically, the amendments: modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (“VIEs”) or voting interest entities; eliminate the presumption that a general partner should consolidate a limited partnership; affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships; and provide a scope exception from consolidation guidance for reporting entities that are required to comply with or operate in accordance with certain requirements

similar to those for registered money market funds. For public entities, this update becomes effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. Early adoption is permitted. The Company is currently evaluating the impact that the recently issued accounting standard will have on the Company's financial position and results of operations but does not expect it to have a material impact.

In May 2014, the FASB 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 consideration to which the entity expects to be entitled in exchange for those goods or services. For public entities, this update originally became effective for interim and annual reporting periods beginning after December 15, 2016. In July 2015, the FASB approved a proposal to defer the effective date of the standard by one year. Early adoption is not permitted, although if the FASB proposal passes, public entities are permitted to elect to adopt the amendments on the original effective date. The Company is currently evaluating the impact that the recently issued accounting standard will have on the Company's financial position and results of operations but does not expect it to have a material impact.

## Note 2 - Reserves for Claims

Transactions in the reserves for claims for the six months ended June 30, 2015 and the year ended December 31, 2014 are summarized as follows:

|                                       | June 30, 2015 | December 31, 2014 |
|---------------------------------------|---------------|-------------------|
| Balance, beginning of period          | \$36,677,000  | \$35,360,000      |
| Provision, charged to operations      | 2,917,422     | 5,229,716         |
| Payments of claims, net of recoveries | (1,469,422    | ) (3,912,716      |
| Ending balance                        | \$38,125,000  | \$36,677,000      |

The total reserve for all reported and unreported losses the Company incurred through June 30, 2015 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 claims that have been incurred but not yet reported ("IBNR"). 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 title insurance policies issued through June 30, 2015. Management 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 IBNR, follows:

|                     | June 30, 2015 | %     | December 31, 2014 | %     |
|---------------------|---------------|-------|-------------------|-------|
| Known title claims  | \$5,692,307   | 14.9  | \$5,364,645       | 14.6  |
| IBNR                | 32,432,693    | 85.1  | 31,312,355        | 85.4  |
| Total loss reserves | \$38,125,000  | 100.0 | \$36,677,000      | 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 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 is computed by dividing net income attributable to the Company by the weighted average number of common shares outstanding during the reporting period. Diluted earnings per common share is computed by dividing net income attributable to the Company 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 services that the Company has not yet recognized; and (c) the amount of estimated tax benefits that would be recorded in retained earnings, 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 4,797 and 4,271 for the three months ended June 30, 2015 and 2014, respectively, and 5,160 and 5,221 for the six months ended June 30, 2015 and 2014, respectively.

The following table sets forth the computation of basic and diluted earnings per share for the three and six months ended June 30:

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|   | Three Months Ended June |             | Six Months Ended June |             |
|---|-------------------------|-------------|-----------------------|-------------|
|   | 30,<br>2015             | 2014        | 30,<br>2015           | 2014        |
| Net income attributable to the Company  | \$4,120,497             | \$3,373,598 | \$5,846,621           | \$4,360,036 |
| Weighted average common shares outstanding – Basic  | 2,004,698               | 2,034,931   | 2,008,718             | 2,036,047   |
| Incremental shares outstanding assuming the exercise of dilutive stock options and SARs (share-settled) | 4,797                   | 4,271       | 5,160                 | 5,221       |
| Weighted average common shares outstanding – Diluted  | 2,009,495               | 2,039,202   | 2,013,878             | 2,041,268   |
| Basic earnings per common share   | \$2.06                  | \$1.66      | \$2.91                | \$2.14      |
| Diluted earnings per common share   | \$2.05                  | \$1.65      | \$2.90                | \$2.14      |



There were 4,500 and 3,000 potential shares excluded from the computation of diluted earnings per share for the three months ended June 30, 2015 and 2014, respectively. There were 4,500 and no potential shares excluded from the computation of diluted earnings per share for the six months ended June 30, 2015 and 2014, respectively. These potential shares were anti-dilutive because the underlying share awards had strike prices that exceeded the fair market value.

The Company has adopted employee 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 generally expire in five to ten years from the date of grant and are exercisable and vest: immediately; within one year; or at 10% to 20% per year beginning on the date of grant. All SARs issued to date have been share-settled only.

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

|   | Number<br>Of Shares | Weighted<br>Average<br>Exercise Price | Average Remaining<br>Contractual<br>Term (Years) | Aggregate<br>Intrinsic<br>Value |
|---|---------------------|---------------------------------------|--|---------------------------------|
| Outstanding as of January 1, 2014       | 19,000              | \$45.74                               | 3.43   | \$669,610                       |
| SARs granted                            | 4,500               | 68.70                                 |  |                                 |
| SARs exercised                          | (1,500)             | ) 49.04                               |  |                                 |
| Options exercised                       | (1,000)             | ) 27.21                               |  |                                 |
| Options/SARs canceled/forfeited/expired | —                   | —                                     |  |                                 |
| Outstanding as of December 31, 2014     | 21,000              | \$51.30                               | 3.64   | \$453,510                       |
| SARs granted                            | 4,500               | 73.00                                 |  |                                 |
| SARs exercised                          | (2,000)             | ) 47.88                               |  |                                 |
| Options exercised                       | (1,500)             | ) 36.79                               |  |                                 |
| Options/SARs canceled/forfeited/expired | —                   | —                                     |  |                                 |
| Outstanding as of June 30, 2015         | 22,000              | \$57.04                               | 4.43   | \$316,230                       |
| Exercisable as of June 30, 2015         | 18,625              | \$54.15                               | 3.99   | \$316,230                       |
| Unvested as of June 30, 2015            | 3,375               | \$73.00                               | 6.89   | \$—                             |

During the second quarters of both 2015 and 2014, the Company issued a total of 4,500 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. 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 assumed for the expected life of the award is based on the U.S. Treasury yield curve at the time of the grant. The weighted average fair values for the SARs issued during 2015 and 2014 were \$31.16 and \$28.98, respectively.

The weighted average fair values for SARs issued during 2015 and 2014 were estimated using the weighted average assumptions shown in the table below:

|                        | 2015 | 2014   |   |  |
|------------------------|------|--------|---|--|
| Expected life in years | 7.0  | 6.9    |   |  |
| Volatility             | 40.7 | % 39.9 | % |  |
| Interest rate          | 2.0  | % 2.1  | % |  |
| Yield rate             | 0.4  | % 0.4  | % |  |

There was approximately \$68,000 and \$55,000 of compensation expense relating to SARs or options vesting on or before June 30, 2015 and 2014, respectively, included in salaries, employee benefits and payroll taxes in the Consolidated Statements of Income. As of June 30, 2015, there was approximately \$105,000 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 period of approximately 6 months based on weighted average durations.

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.

Provided below is selected financial information about the Company's operations by segment for the periods ended June 30, 2015 and 2014:

|   | Title<br>Insurance | All<br>Other | Intersegment<br>Eliminations | Total         |
|---|--------------------|--------------|------------------------------|---------------|
| <b>Three Months Ended June 30, 2015</b> |                    |              |                              |               |
| Insurance and other services revenues   | \$32,245,905       | \$1,655,359  | \$(476,108 )                 | \$33,425,156  |
| Investment income                       | 1,010,243          | 144,578      | (23,334 )                    | 1,131,487     |
| Net realized gain on investments        | 899,588            | 25,576       | —                            | 925,164       |
| Total revenues                          | \$34,155,736       | \$1,825,513  | \$(499,442 )                 | \$35,481,807  |
| Operating expenses                      | 28,614,932         | 1,539,065    | (458,687 )                   | 29,695,310    |
| Income before income taxes              | \$5,540,804        | \$286,448    | \$(40,755 )                  | \$5,786,497   |
| Total assets                            | \$156,308,663      | \$43,890,892 | \$—                          | \$200,199,555 |
| <b>Three Months Ended June 30, 2014</b> |                    |              |                              |               |
| Insurance and other services revenues   | \$31,068,218       | \$1,447,431  | \$(425,613 )                 | \$32,090,036  |
| Investment income                       | 937,692            | 125,077      | (23,334 )                    | 1,039,435     |
| Net realized gain (loss) on investments | 92,920             | (838 )       | —                            | 92,082        |
| Total revenues                          | \$32,098,830       | \$1,571,670  | \$(448,947 )                 | \$33,221,553  |
| Operating expenses                      | 27,590,537         | 1,360,164    | (408,192 )                   | 28,542,509    |
| Income before income taxes              | \$4,508,293        | \$211,506    | \$(40,755 )                  | \$4,679,044   |
| Total assets                            | \$148,524,746      | \$42,727,628 | \$—                          | \$191,252,374 |
| <b>Six Months Ended June 30, 2015</b>   |                    |              |                              |               |
| Insurance and other services revenues   | \$58,241,430       | \$3,119,516  | \$(826,823 )                 | \$60,534,123  |
| Investment income                       | 2,061,018          | 295,176      | (46,668 )                    | 2,309,526     |
| Net realized gain on investments        | 913,967            | 26,000       | —                            | 939,967       |
| Total revenues                          | \$61,216,415       | \$3,440,692  | \$(873,491 )                 | \$63,783,616  |
| Operating expenses                      | 53,212,403         | 3,207,573    | (791,981 )                   | 55,627,995    |
| Income before income taxes              | \$8,004,012        | \$233,119    | \$(81,510 )                  | \$8,155,621   |
| Total assets                            | \$156,308,663      | \$43,890,892 | \$—                          | \$200,199,555 |
| <b>Six Months Ended June 30, 2014</b>   |                    |              |                              |               |
| Insurance and other services revenues   | \$56,875,668       | \$2,900,732  | \$(750,843 )                 | \$59,025,557  |
| Investment income                       | 1,866,204          | 246,315      | (46,668 )                    | 2,065,851     |
| Net realized gain on investments        | 530,528            | 53,691       | —                            | 584,219       |
| Total revenues                          | \$59,272,400       | \$3,200,738  | \$(797,511 )                 | \$61,675,627  |
| Operating expenses                      | 53,315,465         | 3,040,604    | (716,001 )                   | 55,640,068    |
| Income before income taxes              | \$5,956,935        | \$160,134    | \$(81,510 )                  | \$6,035,559   |
| Total assets                            | \$148,524,746      | \$42,727,628 | \$—                          | \$191,252,374 |



## Note 5 – Retirement Agreements and Other Postretirement Benefits

The Company's subsidiary, Investors Title Insurance Company ("ITIC"), is party to employment agreements with key executives that provide for the continuation of certain employee benefits and other payments due under the agreements upon retirement estimated to total \$7,662,000 and \$7,111,000 as of June 30, 2015 and December 31, 2014, 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 sets forth the net periodic benefits cost for the executive benefits for the periods ended June 30, 2015 and 2014:

|   | Three Months Ended June 30, |          | Six Months Ended June 30, |          |
|---|-----------------------------|----------|---------------------------|----------|
|   | 2015                        | 2014     | 2015                      | 2014     |
| Service cost – benefits earned during the year    | \$4,187                     | \$3,667  | \$8,374                   | \$7,334  |
| Interest cost on the projected benefit obligation | 7,693                       | 7,618    | 15,386                    | 15,236   |
| Amortization of unrecognized prior service cost   | 1,098                       | 555      | 2,195                     | 1,109    |
| Amortization of unrecognized losses               | 878                         | —        | 1,757                     | —        |
| Net periodic benefits costs                       | \$13,856                    | \$11,840 | \$27,712                  | \$23,679 |

## Note 6 - Fair Value Measurement

## Valuation of Financial Assets and Liabilities

The FASB has established a valuation hierarchy for disclosure of the inputs 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 are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs 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.

The Level 2 category includes fixed maturity investments such as corporate bonds, U.S. government and agency bonds and municipal bonds. Fair value is principally based on market values obtained from a third party pricing service. Factors that are used in determining 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 a third party 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 June 30, 2015 and December 31, 2014, 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 are classified as Level 2 because the pricing service from which the Company has obtained fair values for these instruments uses valuation models which use observable market inputs in addition to trading 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 are unavailable due to the failure of auctions. The Company's ARS portfolio is comprised entirely of investment grade student loan ARS. The par value of these securities was \$1,000,000 as of June 30, 2015 and December 31, 2014, with approximately 97.0% as of June 30, 2015 and December 31, 2014, guaranteed by the U.S. Department of Education.

Some of the inputs to ARS valuation 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. This service uses a proprietary valuation model that considers factors such as the following: 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 June 30, 2015 and December 31, 2014:

|  |       |       |
|--|-------|-------|
|  | 2015  | 2014  |
| Cumulative probability of earning maximum rate until maturity  | —%    | —%    |
| Cumulative probability of principal returned prior to maturity | 95.2% | 95.2% |
| Cumulative probability of default at some future point         | 4.8%  | 4.8%  |

Significant increases or decreases in any of the inputs in isolation could 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 principal being returned and earning maximum 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 and believes that this valuation is the most reasonable estimate of fair value. In 2015 and 2014, the difference in the low and high values of the ranges was approximately one to four percent of the carrying value of the Company's ARS.

The following table presents, by level, the financial assets carried at fair value measured on a recurring basis as of June 30, 2015 and December 31, 2014. 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. Level 3 assets are comprised solely of ARS.

|   |              |               |           |               |
|---|--------------|---------------|-----------|---------------|
| As of June 30, 2015   | Level 1      | Level 2       | Level 3   | Total         |
| Short-term investments  | \$8,588,140  | \$—           | \$—       | \$8,588,140   |
| Equity securities:  |              |               |           |               |
| Common stock  | 38,237,742   | —             | —         | 38,237,742    |
| Fixed maturities:   |              |               |           |               |
| Obligations of U.S. states, territories and political subdivisions* | —            | 81,083,904    | —         | 81,083,904    |
| Corporate debt securities*  | —            | 19,661,673    | 941,200   | 20,602,873    |
| Total   | \$46,825,882 | \$100,745,577 | \$941,200 | \$148,512,659 |
| As of December 31, 2014   | Level 1      | Level 2       | Level 3   | Total         |
| Short-term investments  | \$2,576,993  | \$—           | \$—       | \$2,576,993   |
| Equity securities:  |              |               |           |               |
| Common stock and nonredeemable preferred stock                      | 39,254,981   | —             | —         | 39,254,981    |
| Fixed maturities:   |              |               |           |               |
| Obligations of U.S. states, territories and political subdivisions* | —            | 85,780,755    | —         | 85,780,755    |
| Corporate debt securities*  | —            | 22,328,435    | 939,100   | 23,267,535    |
| Total   | \$41,831,974 | \$108,109,190 | \$939,100 | \$150,880,264 |

\*Denotes fair market value obtained from pricing services.

There were no transfers into or out of Levels 1, 2 or 3 during the period.





To help ensure that fair value determinations are consistent with FASB ASC 820, prices from our pricing services go through multiple review processes to ensure appropriate pricing. Pricing procedures and inputs used to price each security include, but are not limited to, the following: unadjusted quoted market prices for identical securities such as stock market closing prices; non-binding quoted prices for identical securities in markets that are not active; interest rates; yield curves observable at commonly quoted intervals; volatility; prepayment speeds; loss severity; credit risks and default rates. The Company reviews the procedures and inputs used by its pricing services and verifies a sample of the services' quotes by comparing them to values obtained from other pricing resources. In the event the Company disagrees with a price provided by its pricing services, the respective service reevaluates the price to corroborate the market information and then reviews inputs to the evaluation in light of potentially new market data. The Company believes that these processes and inputs result in appropriate classifications and fair values consistent with ASC 820.

#### Other Financial Instruments

The Company uses various financial instruments in the normal course of its business. In the measurement of the fair value of certain financial instruments, other valuation techniques were utilized if quoted market prices were not available. These derived fair value estimates are significantly affected by the assumptions used. Additionally, ASC 820 excludes from its scope certain financial instruments, including those related to insurance contracts, pension and other postretirement benefits, and equity method investments.

In estimating the fair value of the financial instruments presented, the Company used the following methods and assumptions:

#### Cash and cash equivalents

The carrying amount for cash and cash equivalents is a reasonable estimate of fair value due to the short-term maturity of these investments.

#### Cost-basis investments

The estimated fair value of cost-basis investments is calculated from the book value of the underlying entities, which is not materially different from the fair value of the underlying entity. These items are included in other investments in the Consolidated Balance Sheets.

#### Accrued dividends and interest

The carrying amount for accrued dividends and interest is a reasonable estimate of fair value due to the short-term maturity of these assets.

The carrying amounts and fair values of these financial instruments (please note investments are disclosed in a previous table) as of June 30, 2015 and December 31, 2014 are presented in the following table:

| As of June 30, 2015            | Carrying Value | Estimated Fair Value | Level 1      | Level 2 | Level 3     |
|--------------------------------|----------------|----------------------|--------------|---------|-------------|
| Financial assets:              |                |                      |              |         |             |
| Cash                           | \$18,823,257   | \$18,823,257         | \$18,823,257 | \$—     | \$—         |
| Cost-basis investments         | 2,574,394      | 2,972,786            | —            | —       | 2,972,786   |
| Accrued dividends and interest | 1,039,031      | 1,039,031            | 1,039,031    | —       | —           |
| Total                          | \$22,436,682   | \$22,835,074         | \$19,862,288 | \$—     | \$2,972,786 |
| As of December 31, 2014        | Carrying Value | Estimated Fair Value | Level 1      | Level 2 | Level 3     |

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Financial assets:

|                                |              |              |              |     |             |
|--------------------------------|--------------|--------------|--------------|-----|-------------|
| Cash                           | \$15,826,515 | \$15,826,515 | \$15,826,515 | \$— | \$—         |
| Cost-basis investments         | 2,516,608    | 2,675,817    | —            | —   | 2,675,817   |
| Accrued dividends and interest | 1,063,837    | 1,063,837    | 1,063,837    | —   | —           |
| Total                          | \$19,406,960 | \$19,566,169 | \$16,890,352 | \$— | \$2,675,817 |

The following table presents a reconciliation of the Company's assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3), which are all ARS securities, for the period ended June 30, 2015 and the year ended December 31, 2014:

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|  |           |           |
|--|-----------|-----------|
| Changes in fair value during the period ended:               | 2015      | 2014      |
| Beginning balance at January 1                               | \$939,100 | \$935,700 |
| Redemptions and sales  | —         | —         |
| Realized gain – included in net realized gain on investments | —         | —         |
| Unrealized gain - included in other comprehensive income     | 2,100     | 3,400     |
| Ending balance, net  | \$941,200 | \$939,100 |

Certain cost-basis investments are measured at estimated fair value on a non-recurring basis, such as investments that are determined to be other-than temporarily impaired during the period and recorded at estimated fair value in the Consolidated Financial Statements as of June 30, 2015 and December 31, 2014. The following table summarizes the corresponding estimated fair value hierarchy of such investments at June 30, 2015 and December 31, 2014 and the related impairments recognized:

| As of June 30, 2015          | Valuation Method | Impaired | Level 1 | Level 2 | Level 3  | Total at Estimated Fair Value | Impairment Losses |
|------------------------------|------------------|----------|---------|---------|----------|-------------------------------|-------------------|
| Cost-basis investments       | Fair Value       | Yes      | \$—     | \$—     | \$—      | \$—                           | \$—               |
| Total cost-basis investments |                  |          | \$—     | \$—     | \$—      | \$—                           | \$—               |
| As of December 31, 2014      | Valuation Method | Impaired | Level 1 | Level 2 | Level 3  | Total at Estimated Fair Value | Impairment Losses |
| Cost-basis investments       | Fair Value       | Yes      | \$—     | \$—     | \$22,682 | \$22,682                      | \$(10,062 )       |
| Total cost-basis investments |                  |          | \$—     | \$—     | \$22,682 | \$22,682                      | \$(10,062 )       |

Note 7 – Investments in Securities

The aggregate estimated fair value, gross unrealized holding gains, gross unrealized holding losses and cost or amortized cost for securities by major security type are as follows:

| As of June 30, 2015   | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|----------------|------------------------|-------------------------|----------------------|
| Fixed maturities, available-for-sale, at fair value:                                      |                |                        |                         |                      |
| General obligations of U.S. states, territories and political subdivisions                | \$31,548,653   | \$1,091,029            | \$93,303                | \$32,546,379         |
| Issuer obligations of U.S. states, territories and political subdivisions special revenue | 46,920,424     | 1,870,286              | 253,185                 | 48,537,525           |
| Corporate debt securities   | 19,068,255     | 635,520                | 42,102                  | 19,661,673           |
| Auction rate securities   | 923,348        | 17,852                 | —                       | 941,200              |
| Total   | \$98,460,680   | \$3,614,687            | \$388,590               | \$101,686,777        |
| Equity securities, available-for-sale, at fair value:                                     |                |                        |                         |                      |
| Common stocks   | \$24,495,731   | \$13,971,118           | \$229,107               | \$38,237,742         |
| Total   | \$24,495,731   | \$13,971,118           | \$229,107               | \$38,237,742         |
| Short-term investments:   |                |                        |                         |                      |
| Money market funds and certificates of deposit  | \$8,588,140    | \$—                    | \$—                     | \$8,588,140          |
| Total   | \$8,588,140    | \$—                    | \$—                     | \$8,588,140          |



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| As of December 31, 2014   | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>Value |
|---|-------------------|------------------------------|-------------------------------|----------------------------|
| Fixed maturities, available-for-sale, at fair value:                                      |                   |                              |                               |                            |
| General obligations of U.S. states, territories and political subdivisions                | \$35,215,247      | \$1,527,794                  | \$19,542                      | \$36,723,499               |
| Issuer obligations of U.S. states, territories and political subdivisions special revenue | 46,707,033        | 2,405,725                    | 55,502                        | 49,057,256                 |
| Corporate debt securities   | 21,576,641        | 823,133                      | 71,339                        | 22,328,435                 |
| Auction rate securities   | 922,129           | 16,971                       | —                             | 939,100                    |
| Total   | \$104,421,050     | \$4,773,623                  | \$146,383                     | \$109,048,290              |
| Equity securities, available-for-sale, at fair value:                                     |                   |                              |                               |                            |
| Common stocks and nonredeemable preferred stocks  | \$24,128,753      | \$15,225,459                 | \$99,231                      | \$39,254,981               |
| Total   | \$24,128,753      | \$15,225,459                 | \$99,231                      | \$39,254,981               |
| Short-term investments:   |                   |                              |                               |                            |