INVESTORS TITLE CO
Form 10-K
March 05, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
for the fiscal year ended December 31, 2009

[ ] 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 or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

121 North Columbia Street
Chapel Hill, North Carolina 27514
(919) 968-2200
(Address and telephone number of principal executive office)

Securities registered pursuant to section 12(b) of the Act:	Name of each exchange on which registered:
Common Stock, no par value	NASDAQ Global Market
Rights to Purchase Series A Junior Participating Preferred Stock	NASDAQ Global Market

Securities registered pursuant to section 12(g) of the Act:
None

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes [ ]   No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Yes [ ]   No [X]

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 [ ]   No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

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 Act). Yes [ ] No [X]

The aggregate market value of the common shares held by non-affiliates was $44,585,368 based on the closing sales price on the NASDAQ Global Market on the last business day of the registrant's most recently completed second fiscal quarter (June 30, 2009).

As of February 22, 2010, there were 2,285,671 common shares of the registrant outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Investors Title Company's definitive proxy statement for the Annual Meeting of Shareholders to be held May 19, 2010 are incorporated by reference in Part III hereof.

SAFE HARBOR FOR FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K, as well as information included in future filings by the Company with the Securities and Exchange Commission and information contained in written material, press releases and oral statements issued by or on behalf of the Company, contains, or may contain, “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 that reflect management’s current outlook for future periods. These statements may be identified by the use of words such as “plan,” “expect,” “aim,” “believe,” “project,” “anticipate,” “intend,” “estimate,” “should,” “could” and other expressions that indicate future events and trends. All statements that address expectations or projections about the future, including statements about the Company’s strategy for growth, product and service development, market share position, claims, expenditures, financial results and cash requirements, are forward-looking statements. Forward-looking statements are based on certain assumptions and expectations of future events that are subject to a number of risks and uncertainties. Actual future results and trends may differ materially from historical results or those projected in any such forward-looking statements depending on a variety of factors, including, but not limited to, the following:

- the level of real estate transactions, the level of mortgage origination volumes (including refinancing) and changes to the insurance requirements of the participants in the secondary mortgage market, and the effect of these factors on the demand for title insurance;
- changes in general economic, business, and political conditions, including the performance of the financial and real estate markets;
- compliance with government regulation and significant changes to applicable regulations or in their application by regulators;
- the possible inadequacy of provisions for claims to cover actual claim losses;
- the incidence of fraud-related losses;
- heightened regulatory scrutiny and investigations of the title insurance industry;
- unanticipated adverse changes in securities markets, including interest rates, could result in material losses on the Company’s investments;
- the Company’s dependence on key management personnel, the loss of whom could have a materialadverse affect on the Company’s business;
- the Company’s ability to develop and offer products and services that meet changing industry standards ina timely and cost-effective manner;
- statutory requirements applicable to the Company’s insurance subsidiaries which require them to maintainminimum levels of capital, surplus and reserves and restrict the amount of dividends that they may pay to the Company without prior regulatory approval;
- significant competition that the Company’s operating subsidiaries face;
- the Company’s business concentration in the State of North Carolina, the source of approximately 44% ofour title insurance premiums;
- weakness in the commercial real estate market and increases in the amount or severity of commercial real estate claims and
- other risks detailed elsewhere in this document and in the Company’s other filings with the SEC.

For a description of factors that may cause actual results to differ materially from such forward-looking statements, see Item 1A, “Risk Factors” of this Annual Report on Form 10-K.

These and other risks and uncertainties may be described from time to time in the Company’s other reports and filings with the Securities and Exchange Commission. The Company is not under any obligation (and expressly disclaims any such obligation) and does not undertake to update or alter any forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements are made. You should consider the possibility that actual results may differ materially from our forward-looking statements.

INVESTORS TITLE COMPANY AND SUBSIDIARIES

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PART I

ITEM 1. BUSINESS

GENERAL

Investors Title Company (the "Company") is a holding company that operates through its subsidiaries and was incorporated in the state of North Carolina in 1973. The Company became operational on June 24, 1976, when it acquired Investors Title Insurance Company ("ITIC"), which had itself been operating since 1972, as a wholly owned subsidiary under a plan of exchange of shares of common stock. The Company acquired National Investors Title Insurance Company ("N-ITIC"), formerly Northeast Investors Title Insurance Company, as a wholly owned subsidiary under a plan of exchange of shares of common stock. The Company's executive offices are located at 121 North Columbia Street, Chapel Hill, North Carolina 27514 and its telephone number is (919) 968-2200. The Company maintains a website at www.invtitle.com.

OVERVIEW OF THE BUSINESS

The Company engages in several lines of business. Its primary business activity, and its only reportable operating segment, is the issuance of residential and commercial title insurance through ITIC and N-ITIC. Additionally the Company provides tax-deferred real property exchange services through its subsidiaries, Investors Title Exchange Corporation ("ITEC") and Investors Title Accommodation Corporation ("ITAC"). The Company entered into the business of providing investment management and trust services to individuals, trusts and other entities in 2003. The title insurance segment consists of the operations of ITIC and N-ITIC. Exchange services are conducted through ITEC and ITAC. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 13 of Notes to Consolidated Financial Statements in this Form 10-K Annual Report for additional information related to the revenues, income and assets attributable to the Company's primary operating segment.

Title Insurance

Through its two wholly owned title underwriting subsidiaries, ITIC and N-ITIC, the Company underwrites land title insurance for owners and mortgagees as a primary insurer. ITIC and N-ITIC offer primary title insurance coverage to both owners and mortgagees of real estate and also offers the reinsurance of title insurance risks to other title insurance companies. Title insurance protects against loss or damage resulting from title defects that affect real property. The commitment and policies issued are predominantly the standard American Land Title Association ("ALTA") approved forms.

Upon a real estate closing, the seller executes a deed to the new owner. When real property is conveyed from one party to another, occasionally there is an undisclosed defect in the title or a mistake or omission in a prior deed, will or mortgage that may give a third party a legal claim against such property. If a claim is made against real property, title insurance provides indemnification against insured defects.

There are numerous kinds of defects that could jeopardize the property owner's or mortgagee's interest in the property defined in the title policy. Such risks include title being vested in someone or some entity other than the insured, unmarketable title, lack of a right of access to the property, invalidity or unenforceability of the insured mortgage, or other defects, liens, or encumbrances against the property. Examples of common types of covered risks include defects arising from prior unsatisfied mortgages, tax liens or confirmed assessments, judgments against the property or encumbrances against the property arising through easements, restrictions or other existing covenants. Title insurance also generally protects against deeds or mortgages that contain inaccurate legal descriptions, that were forged or improperly acknowledged or delivered, that were executed by spouses without the other spouse's signature or release of marital interest or that were conveyed by minors or incompetents.

Title Insurance Policies. There are two basic types of title insurance policies - one for the mortgage lender and one for the real estate owner. A lender often requires property owners to purchase title insurance to protect its position as a holder of a mortgage loan, but the lender's title insurance policy does not protect the property owner. The property owner has to purchase a separate owner's title insurance policy to protect their investment. The Company issues title insurance policies on the basis of a title report. The title report documents the current status of title to the property.

Insured Risk on Policies in Force. Generally, the amount of the insured risk or “face amount” of insurance under a title insurance policy is equal to the lesser of the purchase price of the insured property or the fair market value of the property. In the event that a claim is made against the property, the insurer is responsible for paying the legal costs associated with eliminating covered title defects or defending the insured party against covered title defects affecting the property. The insurer may choose to pay the policy limits to the insured or, if the loss is less than policy limits, the amount of the insured’s actual loss due to the title defect, at which time the insurer’s duty to defend the claim and all other obligations of the insurer with respect to the claim are satisfied.

At any given time, the insurer’s actual risk of monetary loss under outstanding policies is only a portion of the aggregate insured risk, or total face amount, of all policies in force. The lower risk results primarily from the reissuance of title insurance policies by other underwriters over time when the property is conveyed or refinanced. The coverage on a lender’s title insurance policy is reduced and eventually terminated as the mortgage loan it secures is paid. An owner’s policy is effective as long as the insured has an ownership interest in the property or has liability under warranties of title. Due to the variability of these factors, the aggregate contingent liability of a title underwriter on outstanding policies of the Company and its subsidiaries cannot be determined with any precision.

Losses and Reserves. While most other forms of insurance provide for the assumption of risk of loss arising out of unforeseen events, title insurance is based upon a process of loss avoidance. Title insurance generally serves to protect the policyholder from the risk of loss from events that predate the issuance of the policy. Losses on policies typically occur when a title defect is not discovered during the examination and settlement process or the occurrence of certain hidden risks which cannot be determined from an accurate search of public land records. The maximum amount of liability under a title insurance policy is generally the face amount of the policy plus the cost of defending the insured’s title against an adverse claim. Reserves for claim losses are established based upon known claims, as well as estimated losses incurred but not yet reported to the Company based upon historical experience and other factors.

Title claims can often be complex, vary greatly in dollar amounts, are affected by economic and market conditions and may involve uncertainties as to ultimate exposure, and therefore, reserve estimates are subject to variability. For a more complete description of the Company’s reserves for claims, see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this Form 10-K Annual Report.

Title Insurance Underwriting Operations. ITIC and N-ITIC issue title insurance coverage through direct operations or through partially owned or independent title insurance agents who issue title policies on behalf of ITIC or N-ITIC. The Company’s title insurance companies determine the terms and conditions upon which they will insure title to the real property according to their underwriting standards, policies and procedures. Title insurance premiums written reflect a one-time premium payment, with no recurring premiums.

Generally, premiums for title insurance are recorded and recognized as revenue at the time of closing of the related transaction as the earnings process is considered complete. Where the policy is issued directly through a branch office, the premiums collected are retained by the Company. Where the policy is issued through a title insurance agent, the agent retains a majority of the premium as a commission. Title insurance commissions earned by the Company’s agents are recognized as expense concurrently with premium recognition. The percentage of the premium retained by agents varies by region to region and is sometimes regulated by the states.

For a description of the level of net premiums written by direct and agency operations, refer to “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Geographic Operations. ITIC was incorporated in the State of North Carolina in 1972. At present, ITIC primarily writes land title insurance in 22 states and the District of Columbia, primarily in the eastern half of the United States. ITIC is licensed to write title insurance in 44 states and the District of Columbia.

N-ITIC was incorporated in the State of South Carolina in 1973. It currently writes title insurance as a primary insurer and as a reinsurer in the State of New York. N-ITIC is also licensed to write title insurance in 19 additional states and the District of Columbia.

Premiums from title insurance written in the state of North Carolina represent the largest source of revenue for the title insurance segment. In the state of North Carolina, ITIC primarily issues title insurance commitments and policies through branch offices. Title policies are primarily issued through issuing agents in other states. For a description of the level of net premiums written geographically by state, refer to “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this Form 10-K Annual Report.

Each state license authorizing ITIC or N-ITIC to write title insurance must be renewed annually. These licenses are necessary for the companies to operate as a title insurer in each state in which they write premiums.

Ratings. The Company's title insurance subsidiaries are regularly assigned ratings by independent agencies designed to indicate their financial condition and/or their claims paying ability. The rating agencies determine ratings primarily by analyzing financial data.

Reinsurance. The Company assumes and cedes reinsurance with other insurance companies in the normal course of business. Reinsurance is a contractual arrangement whereby one insurer assumes some or all of the risk exposure written by another insurer. Ceded reinsurance is comprised of excess of loss treaties, which protects against losses over certain amounts.

In the ordinary course of business, ITIC and N-ITIC reinsure certain risks with other title insurers for the purpose of limiting their risk exposure and to comply with state insurance regulations. They also assume reinsurance for certain risks of other title insurers for which they receive additional income. For the last two years, revenues from reinsurance activities accounted for less than 1% of total premium volume.

Exchange Services, Investment Management and Trust Services

The Company's other lines of business include services offered by wholly owned subsidiaries ITEC, ITAC, Investors Trust Company ("Investors Trust"), Investors Capital Management Company ("ICMC"), and Investors Title Management Services, Inc. ("ITMS"), all wholly owned subsidiaries of the Company.

In 1988, the Company established ITEC to provide services in connection with tax-deferred exchanges of like-kind property pursuant to Section 1031 of the Internal Revenue Code. ITEC acts as an intermediary in tax-deferred exchanges of property held for productive use in a trade or business or for investments, and its income is derived from fees for handling exchange transactions and interest earned on client deposits held by the Company.

ITAC provides services for accomplishing reverse exchanges when taxpayers decide to acquire replacement property before selling the relinquished property.

The services provided by the Company's exchange division are pursuant to provisions in the Internal Revenue Code. From time to time, these laws are subject to review and changes, which may negatively affect the demand for tax-deferred exchanges in general, and consequently the revenues and profitability of the Company's exchange division.

Investors Trust and ICMC work together to provide investment management and trust services to individuals, companies, banks and trusts. ITMS offers various consulting services to provide clients with the technical expertise to start and successfully operate a title insurance agency.

These subsidiaries are not currently a reportable segment for which separate financial information is presented and are instead included and reported in the category "All Other" in the Company's financial statements.

CYCLICALITY AND SEASONALITY

Real estate activity, home sales and mortgage lending are cyclical in nature. Title insurance premiums are closely related to the level of real estate activity and the average price of real estate sales. The availability of funds to finance purchases directly affects real estate sales. Home sales and mortgage lending are highly cyclical businesses. Other factors include mortgage interest rates, consumer confidence, economic conditions, supply and demand and family income levels. The Company's premiums in future periods will continue to be subject to these and other factors which are beyond management's control and, as a result, are likely to fluctuate.

Historically, the title insurance business tends to be seasonal as well as cyclical. Historically, the first calendar quarter has the least residential real estate activity because fewer real estate transactions occur, while the remaining spring and summer quarters are more active.

Refinance activity is generally less seasonal, but it is subject to interest rate fluctuations. However, fluctuations in mortgage interest rates, as well as other economic factors, can cause shifts in real estate activity outside of the normal pattern. The Company anticipates that current market conditions, including the sub prime lending crisis, rising foreclosures, weakening home sales, falling home prices and declining commercial real estate prices, will be the primary influences on the Company's operations until further stabilization occurs.

MARKETING

The Company markets its title insurance services to a broad range of customers in the residential and commercial market sectors of the real estate industry. Issuing agents are typically real estate attorneys or subsidiaries of community and regional mortgage lending institutions, depending on local customs and regulations and the Company’s marketing strategy in a particular territory.

ITIC and N-ITIC strive to provide superior service to their customers and consider this an important factor in attracting and retaining customers. Branch and corporate personnel strive to develop new business and agency relationships to increase market share and ITIC’s Commercial Services Division provides services to commercial clients.

REGULATION

Title Insurance

The Company is an insurance holding company and therefore it is subject to regulation in the states in which its insurance subsidiaries do business. These regulations, among other things, require insurance holding companies to register and file certain reports and require prior regulatory approval of the payment of dividends and other intercompany distributions or transfers.

Title insurance companies are extensively regulated under applicable state laws. All states have requirements for admission to do business as an insurance company, including minimum levels of capital and surplus and establishing reserves. State regulatory authorities monitor the stability and service of insurance companies and possess broad powers with respect to the licensing of title insurers and agents, approving rate schedules and policy forms, financial reporting and accounting practices, reserve requirements, investments and dividend restrictions, as well as examinations and audits of title insurers. Both ITIC and N-ITIC meet the statutory premium reserve requirements and the minimum capital and surplus requirements of the states in which they are licensed. A substantial portion of the assets of the Company’s title insurance subsidiaries consists of their portfolios of investment securities. Both of these subsidiaries are required by various states’ laws to maintain assets of a defined quality and amount.

The Company’s two insurance subsidiaries are subject to examination at any time by the insurance regulators in the states where they are licensed. These and other governmental authorities have the power to enforce state and federal laws to which the title insurance subsidiaries are subject, including but not limited to, the Real Estate Settlement Procedures Act (“RESPA”).

The United States Department of Housing and Urban Development (“HUD”) published final rules regarding RESPA on November 17, 2008. The new rules became effective on January 1, 2010. Among other reforms, these new rules require loan originators to provide consumers with a uniform Good Faith Estimate that more clearly discloses loan terms and closing costs, including title insurance premiums and charges, and facilitates comparison shopping by home buyers. The new rules also require the implementation of a new HUD-1 and HUD-1A Settlement Statement which was redesigned to complement the revised Good Faith Estimate and provide consumers with clear disclosure of actual settlement costs.

Proposals to change the laws and regulations governing insurance holding companies and the title insurance industry are often introduced in Congress, in the state legislatures and before the various insurance regulatory agencies. The Company regularly monitors such proposals and legislation, although the likelihood and timing of them and the impact they may have on the Company and its subsidiaries cannot be determined at this time.

Any material change in the Company’s regulatory environment may have an adverse effect on its business.

Exchange Services, Investment Management and Trust Services

Intermediary services are not federally regulated by any regulatory commissions. ITEC and ITAC both provide services to taxpayers pursuant to Internal Revenue Service regulations that provide taxpayers a safe harbor by using a qualified intermediary to structure tax-deferred exchanges of property and using an exchange accommodation titleholder to hold property in reverse exchange transactions. Investors Trust is regulated by the North Carolina Commissioner of Banks.

COMPETITION

The title insurance industry is highly competitive. ITIC's and N-ITIC's major competitors together comprise a majority of the title insurance market on a national level. The number and size of competing companies varies in the different geographic areas in which the Company conducts business. Key factors that affect competition in the title insurance industry are timeliness and quality of service, price, expertise and, in certain transactions such as those involving commercial properties, the financial strength and size of the insurer. Title insurance underwriters also compete for agents based upon service and commission levels. Some title insurers currently have greater financial resources, larger distribution networks and more extensive computerized databases of property records and related information than the Company. In addition, there are numerous industry-related regulations and statutes that set out conditions and requirements to conduct business. Changes to or the removal of such regulations and statutes could result in additional competition from alternative title insurance products or new entrants into the industry that could materially affect the Company's business operations and financial condition.

CUSTOMERS

The Company is not dependent upon any single customer or a few customers, and the loss of any single customer would not have a material adverse effect on the Company.

INVESTMENT POLICIES

The Company and its subsidiaries derive a substantial portion of their income from investments in municipal and corporate bonds and equity securities. The Company's investment policy is designed to maintain a high quality portfolio and maximize income. The Company invests primarily in short-term investments, federal and municipal governmental securities and investment grade debt securities and equity securities. Some state laws impose restrictions upon the types and amounts of investments that can be made by the Company's insurance subsidiaries. The Company manages its investment portfolio and does not utilize third party investment managers. The securities in the Company's portfolio are subject to economic conditions and normal market risks. The Company's equity securities at December 31, 2009 and 2008 consisted of investments in various industry groups. There were no significant investments in banks, trust and insurance companies at December 31, 2009. Short-term investments, which consist primarily of money market instruments and certificates of deposit which have an original maturity of one year or less, are carried at amortized cost, which approximates fair value. In addition, at December 31, 2009 and 2008, the Company held investments that are accounted for using the equity method (see Note 1 of Notes to Consolidated Financial Statements in this Form 10-K Annual Report.)

See Note 3 of Notes to Consolidated Financial Statements in this Form 10-K Annual Report for the major categories of investments, scheduled maturities, fair values of investment securities and earnings by category.

ENVIRONMENTAL MATTERS

The title insurance policies ITIC and N-ITIC currently issue exclude any liability for environmental risks and contamination unless the Company issues a specific policy endorsement providing coverage for environmental liens recorded prior to the date of policy. The Company has not experienced and does not anticipate that it or its subsidiaries will incur any significant expenses related to environmental claims. In connection with effecting tax-deferred exchanges of like-kind property, ITEC and ITAC may temporarily hold title to property pursuant to an accommodation titleholder agreement. In such situations, the person or entity for which title is being held must execute an indemnification agreement pursuant to which it agrees to indemnify ITEC or ITAC, as appropriate, for any environmental or other claims which may arise as a result of the arrangement.

EMPLOYEES

The holding company has no paid employees. Officers of the holding company are full-time paid employees of ITIC. The Company's subsidiaries had 197 full-time employees and 19 part-time employees as of December 31, 2009. None of the employees are covered by any collective bargaining agreements. Management considers its relationship with its employees to be favorable.

ADDITIONAL INFORMATION

The Company's internet address is www.invtitle.com, the contents of which are not and shall not be deemed a part of this document or any other Securities and Exchange Commission filing. The Company makes available free of charge through its internet website its annual reports on Form 10-K, its quarterly reports on Form 10-Q, its current reports on Form 8-K, and all amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after such materials are electronically filed with, or furnished to, the Securities and Exchange Commission ("SEC"), and also makes available the Section 16 reports on Forms 3, 4 and 5 of its insiders no later than the end of the business day following such filings. The information is free of charge and may be reviewed and downloaded from the website at any time. The public may read any material it has filed with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The "Investor Relations" section of the Company's website also includes its code of business conduct and ethics and the charters of the Audit, Compensation and Nominating Committees of its Board of Directors.

EXECUTIVE OFFICERS OF THE COMPANY

Following is information regarding the executive officers of the Company as of February 26, 2010. Each officer is appointed at the annual meeting of the Board of Directors to serve until the next annual meeting of the Board or until his or her respective successor has been elected and qualified.

Name	Age	Position with Registrant
J. Allen Fine	75	Chief Executive Officer and Chairman of the Board
James A. Fine, Jr.	47	President, Treasurer, Chief Financial Officer, Chief Accounting Officer and Director
W. Morris Fine	43	Executive Vice President, Secretary and Director

J. Allen Fine has been Chief Executive Officer and Chairman of the Board of the Company since its incorporation in 1973. Mr. Fine also served as President of the Company until May 1997. Mr. Fine is the father of James A. Fine, Jr., President, Treasurer and Director of the Company, and W. Morris Fine, Executive Vice President, Secretary and Director of the Company.

James A. Fine, Jr. was named Vice President of the Company in 1987. In 1997, he was named President and Treasurer and appointed as a Director of the Company. In 2002, he was appointed as Chief Financial Officer and Chief Accounting Officer. He is the son of J. Allen Fine, Chief Executive Officer and Chairman of the Board of the Company, and the brother of W. Morris Fine, Executive Vice President, Secretary and Director of the Company.

W. Morris Fine was named Vice President of the Company in 1992. In 1993, he was named Treasurer of the Company and served in that capacity until 1997. In 1997, he was named Executive Vice President and Secretary of the Company. In 1999, he was appointed as a Director of the Company. W. Morris Fine is the son of J. Allen Fine, Chief Executive Officer and Chairman of the Board of the Company, and the brother of James A. Fine, Jr., President, Treasurer and Director of the Company.

ITEM 1A. RISK FACTORS

The risk factors listed in this section and other factors noted herein could cause actual results to differ materially from those contained in any forward-looking statements or could result in a significant or material adverse effect on the Company's results of operations.

The Company's results of operations and financial condition are subject to cyclical demand for title insurance, which depends upon the volume of residential and commercial real estate transactions and mortgage refinancing transactions and economic factors.

The demand for the Company's title insurance and other real estate transaction products and services varies over time and from year to year and is dependent upon, among other things, the volume of commercial and residential real estate transactions and mortgage financing and refinancing transactions. The volume of these transactions has historically been influenced by factors such as the state of the overall economy, the average price of real estate sales, the availability of mortgage financing and mortgage interest rates. During an economic downturn or recession, such as current conditions in the United States, or when the availability of credit, including mortgage financing, is limited or mortgage interest rates are increasing, real estate activity typically declines. The cyclical nature of the Company’s business has caused fluctuations in revenue and profitability in the past and is expected to do so in the future.

The real estate and credit markets have been experiencing significant volatility and disruption for more than approximately 18 months and have created a difficult operating environment for the Company and other companies in the industries in which it operates. The value of residential real estate property and the volume of new and existing home sales have significantly declined since the market peak in 2005. In addition, the Company holds investments in entities which may be negatively impacted by these conditions. The ultimate depth and duration of the economic downturn are unknown. If the current levels of real estate and credit market disruption and volatility continue or worsen, there can be no assurance that the Company will not experience adverse effects, which may be material, to its results of operations and financial condition.

The overall demand for title insurance also depends in part upon the requirement by mortgage lenders and participants in the secondary mortgage market that title insurance policies be obtained on residential and commercial real property.

The Company may experience material losses resulting from fraud, defalcation or misconduct.

Fraud, defalcation and other misconduct by the Company’s agents, approved attorneys and employees are risks inherent in the Company’s business. Agents and approved attorneys typically handle large sums of money in trust pursuant to the closing of real estate transactions and misappropriation of funds by any of these parties could result in large title claims. During the recent economic downturn, the Company has experienced an increase in losses from these factors as compared to historical experience. If current economic conditions continue or worsen, the Company could continue to experience greater-than-normal losses from fraud, defalcation and misconduct.

Differences between actual claims experience and underwriting and reserving assumptions may adversely affect the Company’s financial results.

The Company’s net income is affected by the extent to which its actual claims experience is consistent with the assumptions used in establishing reserves for claims. Reserves for claims are established based on actuarial estimates of how much the Company will need to pay for reported as well as incurred, but not yet reported claims. In addition, management considers factors such as the Company’s historical claims experience, case reserve estimates on reported claims, large claims and other relevant factors in determining loss provision rates and the aggregate recorded expected liability for claims. Due to the nature of the underlying risks and the high degree of uncertainty associated with the determination of reserves for claims, the Company cannot determine precisely the amounts which it will ultimately pay to settle its claims. Such amounts may vary from the estimated amounts, particularly when those payments may not occur until well into the future. To the extent that actual claims experience is less favorable than the underlying assumptions used in establishing such liabilities, the Company could be required to increase reserves. Title claims can often be complex, vary greatly in dollar amounts and are affected by economic and market conditions and may involve uncertainties as to ultimate exposure, and therefore, reserve estimates are subject to variability. In addition, the Company may experience unexpected large losses periodically which require it to increase its title loss reserves.

Poor economic conditions can lead to increased incidences of title insurance claims, and consequently losses, due to increases in defaults and foreclosures upon insured properties. The Company has experienced an increase in the incidence of title claims and losses during the recent economic downturn. If the current environment continues or deteriorates further, the Company may continue to experience increased levels of claims and losses, which may have a material negative effect on its financial condition and results of operations.

Weakness in the commercial real estate market could have an adverse affect on the Company’s results of operations.

Through the Company’s title insurance subsidiaries, it issues commercial title insurance policies in connection with real estate transactions. The commercial real estate market is currently experiencing a credit crisis and commercial real estate prices are down considerably from their peak two years ago. According to the MIT Center for Real Estate, nearly half of all United States commercial real estate mortgage loans come due within the next five years. With the possibility of further declining values of commercial property, limited credit availability, increasing defaults and foreclosures on loans secured by commercial real estate, the Company could see an increase in the number of claims associated with these policies. An increase in the amount or severity of claims could adversely affect the Company’s results of operations.

A decline in the performance of the Company’s investments could materially adversely affect net income and cash flows.

Changes in general economic conditions, interest rates, activities in securities markets and other external factors could adversely affect the value of the Company’s investment portfolio and, in turn, the Company’s operating results and financial condition. Recent economic and credit market conditions have adversely affected the ability of some issuers of investment securities to repay their obligations and have affected the values of investment securities. If the carrying value of the Company’s investments exceeds the fair value, and the decline in fair value is deemed to be other-than-temporary, the Company will be required to write down the value of its investments, which could materially harm the Company’s results of operations and financial condition. During the recent economic downturn, the Company has written down the value of some of its investment portfolio.

The Company’s insurance subsidiaries are subject to complex government regulations.

The Company’s title insurance businesses are subject to extensive state laws and regulations by state insurance authorities in each state in which they operate. These laws and regulations are primarily intended for the protection of policyholders and consumers. The nature and extent of these laws and regulations typically involve, among other matters, licensing and renewal requirements and trade and marketing practices, including, but not limited to:

- licensing of insurers and agents;
- capital and surplus requirements;
- approval of premium rates for insurance;
- limitations on types and amounts of investments;
- restrictions on the size of risks that may be insured by a single company;
- deposits of securities for the benefit of policy holders;
- filing of annual and other reports with respect to financial condition;
- approval of policy forms; and
- regulations regarding the use of personal information.

These laws and regulations are subject to change and may restrict the Company’s ability to implement rate increases or other actions that it may want to take to enhance its operating results or otherwise have a negative impact on its ability to generate revenue, earnings and cash flows.

Many of the Company’s other businesses operate within state and federal guidelines. Any changes in the applicable regulatory environment or changes in existing regulations could restrict its existing or future operations or make it more burdensome to conduct them. Revenues from the Company’s exchange services are closely related to the tax rate on capital gains and other provisions in the Internal Revenue Code. The Company’s revenues in future periods will continue to be subject to these and other factors which are beyond its control.

In addition, the investment management and trust services division is regulated by the North Carolina Commissioner of Banks.

Regulation of title insurance rates could adversely affect the Company’s results of operations.

Title insurance rates are subject to extensive regulation, which varies from state to state. In many states, the preapproval of the applicable state insurance regulator is required prior to implementing a rate change. This regulation could hinder the Company’s ability to promptly adapt to changing market dynamics through price adjustments, which could affect its results of operations.

Competition in the Company’s business affects its revenues.

The title insurance industry is highly competitive. Key factors that affect competition in the title insurance business are quality of service, price within regulatory parameters, expertise, timeliness and the financial strength and size of the insurer. Title companies compete for premiums by choosing various distribution channels which may include company-owned operations and issuing agency relationships with attorneys, lenders, realtors, builders and other settlement service providers. Title insurance underwriters compete for agents on the basis of service and commission levels. Some title insurers currently have greater financial resources, larger distribution networks and more extensive computerized databases of property records and information than the Company. The number and size of competing companies varies in the different geographic areas in which the Company operates. Competition among the major providers of title insurance or the acceptance of new alternatives to traditional title products by the marketplace could adversely affect the Company's operations and financial condition.

The Company's success relies on its ability to attract and retain key personnel and agents.

Competition for skilled and experienced personnel and agents in the Company's industry is high. The Company may have difficulty hiring the necessary marketing and management personnel to support any future growth. The loss of any key employee or the failure of any key employee to perform in their current position could prevent the Company from realizing future growth. Also, the Company cannot provide assurance that it will succeed in attracting or retaining new agents. Its results of operations and financial condition could be adversely affected if it is unsuccessful in attracting and retaining agents.

A downgrade or a potential downgrade in one of the Company's financial strength ratings could result in a loss of business.

The competitive positions of insurance companies rely in part on the independent ratings of their financial strength and claims-paying ability. The Company's financial strength ratings are subject to continued periodic review by rating agencies and subject to change. A significant downgrade in the ratings of either of the Company's policy-issuing subsidiaries could negatively impact its ability to compete for new business and retain existing business and maintain licenses necessary to operate as title insurance companies in various states.

Insurance regulations limit the ability of the Company's insurance subsidiaries to pay dividends to the holding company.

The Company is an insurance holding company and it has no substantial operations of its own. The Company's ability to pay dividends and meet its obligations is dependent, among other things, on the ability of its subsidiaries to pay dividends or repay funds to it. The Company's insurance subsidiaries are subject to insurance and other regulations that limit the amount of dividends, loans or advances to it based on the amount of adjusted unassigned surplus and net income and require these subsidiaries to maintain minimum amounts of capital, surplus and reserves. In general, dividends in excess of prescribed limits are deemed "extraordinary" and require prior state insurance regulatory approval. These dividend restrictions could limit the Company's ability to pay dividends to its shareholders or grow its business. For further discussion of the regulation of dividend payments and other transactions between affiliates, see "Liquidity and Capital Resources" under "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of this report.

The Company may encounter difficulties managing growth or technology changes, which could adversely affect its results.

The Company has historically achieved revenue growth in part through a combination of developing related new products or services and increasing its market share for existing products. A portion of the Company's growth may be in services or geographic areas with which management is less familiar than with its core business and geographic areas. The expansion of the Company's business, particularly in new services or geographic areas, or significant changes in technology may subject it to associated risks, such as the diversion of management's attention, lack of substantial experience in operating such businesses and a change in competitive position resulting from technology changes.

The Company relies upon North Carolina for about 44% of its title insurance premiums.

North Carolina is the largest source of revenue for the title insurance and, in 2009, North Carolina-based premiums accounted for approximately 44% of premiums earned by the Company. A decrease in North Carolina business would negatively impact financial results.

Failures at financial institutions at which the Company deposits funds could adversely affect the Company.

The Company deposits substantial funds in financial institutions. These funds include amounts owned by third parties, such as escrow deposits. Should one or more of the financial institutions at which the Company maintains deposits fail, there is no guarantee that the Company would recover the funds it has deposited, whether through Federal Deposit Insurance Corporation coverage or otherwise.

Certain provisions of the Company's shareholder rights plan may make a takeover of the Company difficult.

The Company has a shareholders rights plan which could discourage transactions involving actual or potential changes of control, including transactions that otherwise could involve payment of a premium over prevailing market prices to the Company's shareholders for their common shares.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

The Company owns two adjacent office buildings and property located on the corner of North Columbia and West Rosemary Streets in Chapel Hill, North Carolina, which serve as the Company's corporate headquarters. The main building contains approximately 23,000 square feet and has on-site parking facilities. The Company's principal subsidiary, ITIC, leases office space in 28 locations throughout North Carolina, South Carolina, Michigan and Nebraska. The Company believes that each of the office facilities occupied by the Company and its subsidiaries are in good condition, adequately insured and adequate for its present operations.

ITEM 3. LEGAL PROCEEDINGS

The Company and its subsidiaries are involved in various legal proceedings that are incidental to their business. In the Company's opinion, based on the present status of these proceedings, any potential liability of the Company or its subsidiaries with respect to these legal proceedings will not, in the aggregate, be material to the Company's consolidated financial condition or results of operations.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY; RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Common Stock Data and Dividends

The Common Stock of the Company is traded under the symbol "ITIC" on the NASDAQ Global Market. The number of record holders of common stock at December 31, 2009 was 412. The number of record holders is based upon the actual number of holders registered on the books of the Company at such date and does not include holders of shares in "street name" or persons, partnerships, associations, corporations or other entities identified in security position listings maintained by securities depositories. The following table shows, for the periods indicated, the high and low sales prices of the Company's Common Stock as reported on the NASDAQ Global Market, and cash dividends declared.

	2009		2008	
	High	Low	High	Low
First Quarter	$ 39.00	$ 17.14	$ 49.25	$ 35.75
Second Quarter	$ 34.50	$ 23.93	$ 50.88	$ 44.76
Third Quarter	$ 35.86	$ 25.40	$ 49.50	$ 39.76
Fourth Quarter	$ 33.00	$ 28.30	$ 41.30	$ 28.35

The Company paid cash dividends of $0.07 per share in each of the four quarters in 2009 and 2008, respectively.

The Company's current dividend policy anticipates the payment of quarterly dividends in the future. The declaration and payment of dividends will be in the discretion of the Board of Directors and will be dependent upon the Company's future earnings, financial condition and capital requirements. The Company's ability to pay dividends is also subject to certain regulatory restrictions on the payment of dividends by its insurance subsidiaries as described in the "Liquidity and Capital Resources" section of "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," and Note 2 to the consolidated financial statements included in Item 8 of this Form 10-K.

The following table provides information about purchases by the Company (and all affiliated purchasers) during the quarter ended December 31, 2009 of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act:

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Number of Shares that May Yet Be Purchased Under the Plan
Beginning of period				487,697
10/01/09 – 10/31/09	-	$ -	-	487,697
11/01/09 – 11/30/09	1,760	30.81	1,760	485,937
12/01/09 – 12/31/09	223	29.72	223	485,714
Total	1,983	$ 30.69	1,983	485,714

For the quarter ended December 31, 2009, the Company purchased an aggregate of 1,983 shares of the Company's common stock pursuant to the purchase plan (the "Plan") that was publicly announced on June 5, 2000. On November 10, 2008, the Board of Directors of the Company approved the purchase of an additional 394,582 shares pursuant to the Plan, such that there was authority remaining under the Plan to purchase up to an aggregate of 500,000 shares of the Company's common stock pursuant to the Plan immediately after this approval. Unless terminated earlier by resolution of the Board of Directors, the Plan will expire when all shares authorized for purchase under the Plan have been purchased. The Company intends to make further purchases under this Plan. For more information, please see "Liquidity and Capital Resources" in Item 7 of this Form 10-K.

ITEM 6. SELECTED FINANCIAL DATA

(dollars in thousands except per share data)					
For the Year	2009	2008	2007	2006	2005
Net premiums written	$ 62,155	$ 63,662	$ 69,984	$ 70,196	$ 76,522
Revenues	71,308	71,123	84,942	84,662	87,864
Investment income	3,783	4,559	5,197	4,326	3,336
Net income (loss)	4,829	(1,183)	8,402	13,185	13,293
Per Share Data					
Basic earnings (loss) per common share	$ 2.11	$ (0.50)	$ 3.39	$ 5.22	$ 5.19
Weighted average shares outstanding—Basic	2,292	2,364	2,479	2,528	2,560
Diluted earnings (loss) per common share	$ 2.10	$ (0.50)	$ 3.35	$ 5.14	$ 5.10
Weighted average shares outstanding—Diluted	2,299	2,364	2,509	2,564	2,608
Cash dividends per share	$ .28	$ .28	$ .24	$ .24	$ .16
At Year End					
Assets	$ 146,428	$ 139,858	$ 149,642	$ 143,516	$ 128,472
Investments in securities	123,682	115,892	129,026	121,580	95,153
Stockholders' equity	97,259	89,858	99,276	95,276	84,297
Book value/share	42.56	39.18	41.17	38.00	33.07
Performance Ratios					
Net income (loss) to:					
Average stockholders' equity	5.16%	(1.25%)	8.64%	14.69%	16.95%
Total revenues	6.77%	(1.66%)	9.89%	15.57%	15.13%

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the consolidated financial statements and the related notes in this report.

Overview

Investors Title Company (the “Company”) is a holding company that engages primarily in issuing title insurance through two subsidiaries, Investors Title Insurance Company (“ITIC”) and National Investors Title Insurance Company (“N-ITIC”) (formerly Northeast Investors Title Insurance Company), which accounted for 94.5% of the Company’s operating revenues in 2009. Through ITIC and N-ITIC, the Company underwrites land title insurance for owners and mortgagees as a primary insurer. Title insurance protects against loss or damage resulting from title defects that affect real property.

There are two basic types of title insurance policies - one for the mortgage lender and one for the real estate owner. A lender often requires property owners to purchase title insurance to protect its position as a holder of a mortgage loan, but the lender’s title insurance policy does not protect the property owner. The property owner has to purchase a separate owner’s title insurance policy to protect their investment. When real property is conveyed from one party to another, occasionally there is an undisclosed defect in the title or a mistake or omission in a prior deed, will or mortgage that may give a third party a legal claim against such property. If a claim is made against real property, title insurance provides indemnification against insured defects.

ITIC issues title insurance policies through issuing agencies and also directly through home and branch offices. Issuing agents are typically real estate attorneys or subsidiaries of community and regional mortgage lending institutions, depending on local customs and regulations and the Company’s marketing strategy in a particular territory. The ability to attract and retain issuing agents is a key determinant of the Company’s growth in premiums written.

Revenues for this segment result from purchases of new and existing residential and commercial real estate, refinance activity and certain other types of mortgage lending such as home equity lines of credit.

Volume is a factor in the Company’s profitability due to the existence of fixed operating costs. These expenses will be incurred by the Company regardless of the level of premiums written. The resulting operating leverage has historically tended to amplify the impact of changes in volume on the Company’s profitability. The Company’s profitability also depends, in part, upon its ability to manage its investment portfolio to maximize investment returns and minimize risks such as interest rate changes or defaults or impairments of assets.

The Company’s volume of title insurance premiums is affected by the overall level of residential and commercial real estate activity, which includes sales, mortgage financing and mortgage refinancing. In turn, real estate activity is generally affected by a number of factors, including the availability of mortgage credit, the cost of real estate, consumer confidence, employment and family income levels and general United States economic conditions. Another important factor in the level of residential and commercial real estate activity is the effect of changes in interest rates.

The cyclical nature of the residential and commercial real estate markets – and consequently, the land title insurance industry - has historically caused fluctuations in revenues and profitability, and it is expected to continue to do so in the future. Additionally, there are seasonal influences in real estate activity and accordingly in revenue levels for title insurers.

Other Services: Operating divisions not required to be reported separately are reported in a category called All Other. Other services include those offered by the parent holding company and by its smaller wholly owned subsidiaries, Investors Title Exchange Corporation (“ITEC”), Investors Title Accommodation Corporation (“ITAC”), Investors Trust Company (“Investors Trust”), Investors Capital Management Company (“ICMC”) and Investors Title Management Services, Inc. (“ITMS”).

Through its Annual Report on Form 10-K for the year ended December 31, 2008 filed on March 9, 2009, the Company’s disclosures included the operations of exchange services as a separate segment. This business is no longer included as a separate segment in the Company’s financial information, as it is no longer required to be reported separately or is considered a significant operation of the business. The Company’s exchange services division provides customer services in connection with tax-deferred real property exchanges through its subsidiaries. ITEC serves as a qualified intermediary in like-kind exchanges of real or personal property under Section 1031 of the Internal Revenue Code of 1986, as amended. In its role as qualified intermediary, ITEC coordinates the exchange aspects of the real estate transaction, and its duties include drafting standard exchange documents, holding the exchange funds between the sale of the old property and the purchase of the new property, and accepting the formal identification of the replacement property within the required identification period. ITAC serves as exchange accommodation titleholder in reverse exchanges. As exchange accommodation titleholder, ITAC offers a vehicle for accommodating a reverse exchange when the taxpayer must acquire replacement property before selling the relinquished property.

In conjunction with Investors Trust, ICMC provides investment management and trust services to individuals, companies, banks and trusts. ITMS offers consulting services to clients.

Business Trends and Recent Conditions

During the real estate boom, many lenders loosened their underwriting guidelines, particularly in the sub prime loan market. These lower underwriting standards, when combined with new methods of financing loans created a supply of inexpensive credit which led to a build up in mortgage loans to high risk borrowers. As a result, there has been a substantial increase in loan defaults and mortgage foreclosures during the recent downturn in U.S. economic activity. Lenders are now returning to stricter loan underwriting standards, which results in lower overall loan volume. Moreover, the depressed economy has contributed to lower levels of new home purchases, which also negatively affects loan volume. This lower loan volume has, in turn, resulted in a lower level of title premiums generated in the marketplace.

In addition, the downturn in housing and related mortgage finance industries has contributed to higher claims costs. An increase in property foreclosures tends to reveal title defects. A slowing pace of real estate activity also triggers the likelihood of certain types of title claims, such as mechanics' liens on newly constructed property. These factors have historically caused title claims to increase in past real estate market cyclical downturns and the Company has experienced such increases during the current downturn.

Steps taken by the U.S. government to provide economic stimulus during the past year generally had a positive effect on the Company's sales of title insurance. Under the Home Affordable Refinance Program, certain homeowners were able to get refinancing loans. The Economic Stimulus Bill included an $8,000 tax credit that would be available for certain first time home buyers for the purchase of a principal residence on or after January 1, 2009. On November 5, 2009, Congress approved an extension of the first-time homebuyer credit to persons who sign a binding purchase contract by April 30, 2010 and close on the purchase of the residence by June 30, 2010. This law also expanded the program to provide a $6,500 homebuyer credit for buyers who have owned their current home at least five years.

The low level of mortgage interest rate environment during 2009 spurred an increase in mortgage refinancing. According to data published by Freddie Mac, the annual average 30-year fixed mortgage interest rates in the United States were reported to be 5.04% and 6.03% for the years 2009 and 2008, respectively.

Historically, activity in real estate markets has varied over the course of market cycles in response to evolving economic factors. The Company anticipates that current market conditions, including an elevated pace of foreclosures, weak home sales, falling home prices, declining commercial real estate prices and tight loan underwriting standards, will be primary influences on the Company's operations until further stabilization occurs. Absent further declines in interest rate levels, the volume of refinance loan volume will likely return to its historic percentage of overall mortgage origination, which in turn will increasingly depend on the strength of the economy and job creation. Additionally, the Company is monitoring conditions in the commercial real estate market which is widely believed to be subject to a surge in loan failures over the next few years. Such an increase in loan failures could impact the Company in different manners, including an increase in claim volume. Operating results can vary from year to year based on cyclical market conditions and do not necessarily indicate the Company's future operating results and cash flows.

Critical Accounting Estimates and Policies

This discussion and analysis of the Company’s financial condition and results of operations is based upon the Company’s accompanying Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The Company’s management makes various estimates and judgments when applying policies affecting the preparation of the Consolidated Financial Statements. Actual results could differ from those estimates. Significant accounting policies of the Company are discussed in Note 1 to the accompanying Consolidated Financial Statements. Following are those accounting estimates and policies considered critical to the Company.

Reserves for Claim Losses

The total reserve for all reported and unreported losses the Company incurred through December 31, 2009 is represented by the reserve for claims of $39,490,000 on the accompanying consolidated balance sheet. Of that total, $6,398,623 was reserved for specific claims, and $33,091,377 was reserved for claims for which the Company had no notice. The Company’s reserves for claims 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 (incurred but not reported, or “IBNR”).

A provision for estimated future claims payments is recorded at the time the related policy revenue is recorded. The Company records the claims provision as a percentage of net premiums written. This loss provision rate is set to provide for losses on current year policies. By their nature, title claims can often be complex, vary greatly in dollar amounts, vary in number due to economic and market conditions such as an increase in mortgage foreclosures and involve uncertainties as to ultimate exposure. In addition, some claims may require a number of years to settle and determine the final liability for indemnity and loss adjustment expense. The payment experience may extend for more than twenty years after the issuance of a policy. Events such as fraud, defalcation and multiple property defects can substantially and unexpectedly cause increases in estimates of losses. Due to the length of time over which claim payments are made and regularly occurring changes in underlying economic and market conditions, these estimates are subject to variability.

Management considers factors such as the Company’s historical claims experience, case reserve estimates on reported claims, large claims, actuarial projections and other relevant factors in determining its loss provision rates and the aggregate recorded expected liability for claims. In establishing reserves, actuarial projections are compared with recorded reserves to evaluate the adequacy of such recorded claims reserves and any necessary adjustments are then recorded in current operations. As the most recent claims experience develops and new information becomes available, the loss reserve estimate related to prior periods will change to more accurately reflect updated and improved emerging data. The Company reflects any adjustments to reserves in the results of operations in the period in which new information (principally claims experience) becomes available.

The Company initially reserves for each known claim based upon an assessment of specific facts and updates the reserve amount as necessary over the course of administering each claim. Loss ratios for earlier years tend to be more reliable than recent policy years as they are more fully developed. In making loss estimates, management determines a loss provision rate, which it then applies to net premiums written.

There are key assumptions that materially affect the reserve estimates. The Company assumes the aggregate reported liability for known claims and IBNR, in the aggregate, will be comparable to its historical claims experience unless factors, such as loss experience, change significantly. The factors the Company considered for the recently completed fiscal year did not cause any of its key assumptions to change from assumptions used in the immediately preceding period. Also affecting the Company’s assumptions are large losses related to fraud and defalcation, as these can cause significant variances in loss emergence patterns. Management defines a large loss as one where incurred losses exceed $250,000. Due to the small volume of large claims, the long-tail nature of title insurance claims and the inherent uncertainty in loss emergence patterns, large claim activity can vary significantly between policy years. The estimated development of large claims by policy year is therefore subject to significant changes as experience develops. The Company has generally followed the same methodology for estimating loss reserves. The loss provision rate is set to provide for losses on current year policies and to provide for estimated positive or negative development on prior year loss estimates.

Management also considers actuarial analyses in evaluating claims reserves. The actuarial methods used to evaluate reserves are loss development methods, expected loss methods and Cape Cod methods, all of which are accepted actuarial methods for estimating ultimate losses and, therefore, loss reserves. In the loss development method, each policy year's paid or incurred losses are projected to an "ultimate" level using loss development factors. In the Cape Cod method, expected losses for one policy year are estimated based on the loss results for the other policy years, trended to the level of the policy year being estimated. Expected loss methods produce more stable ultimate loss estimates than do loss development methods, which are more responsive to the current loss data. The Cape Cod method, a special case of the Bornhuetter-Ferguson method, blends the results of the loss development and expected loss methods. For more recent policy years, more weight is given to the results of the expected loss methods; for older policy years, more weight is given to the loss development method results.

The key actuarial assumptions are principally loss development factors and expected loss ratios. The selected loss development factors are based on a combination of the Company's historical loss experience and title industry loss experience. Expected loss ratios are estimated for each policy year based on the Company's own experience and title industry loss ratios. When updated data is incorporated into the actuarial models, the resulting loss development factors and expected loss ratios will likely change from the prior values. Changes in these values from 2008 through 2009 have been the result of actual Company and industry experience during the calendar year and not changes in assumptions.

If one or more of the variables or assumptions used changed such that the Company's recorded loss ratio, or loss provision as a percentage of net title premiums, increased or decreased two loss ratio percentage points, the impact on after-tax income for the year ended December 31, 2009, would be as follows. Company management believes that using a sensitivity of two loss percentage points for the loss ratio provides a reasonable benchmark for analysis of the calendar year loss provision of the Company based on historical loss ratios by year.

Increase in Loss Ratio of two percentage points	$ (820,000)
Decrease in Loss Ratio of two percentage points	$ 820,000

Despite the variability of such estimates, management believes based on historical claims experience and actuarial analysis that the reserves are adequate to cover claim losses resulting from pending and future claims for policies issued through December 31, 2009. The ultimate settlement of policy and contract claims will likely vary from the reserve estimates included in the Company's consolidated financial statements. The Company continually reviews and adjusts its reserve estimates to reflect its loss experience and any new information that becomes available. There are no known claims that are expected to have a materially adverse effect on the Company's financial position or operating results.

Premiums Written and Commissions to Agents

Generally, title insurance premiums are recorded and recognized as revenue at the time of closing of the related transaction as the earnings process is then considered complete. Policies or commitments are issued upon receipt of final certificates or preliminary reports with respect to titles. Title insurance commissions earned by the Company's agents are recognized as expenses concurrently with premium recognition.

Valuation and Impairment of Investments in Securities

Securities for which the Company has the intent and ability to hold to maturity are classified as held-to-maturity and are reported at cost, adjusted for amortization of premiums or accretion of discounts and other-than-temporary declines in fair value. Securities held principally for resale in the near term are classified as trading securities and recorded at fair values. Realized and unrealized gains and losses on trading securities are included in other income. Securities not classified as either trading or held-to-maturity are classified as available-for-sale and reported at fair value with unrealized gains and losses, adjusted for other-than-temporary declines in fair value, reported as accumulated other comprehensive income. As of December 31, 2009 and 2008, substantially all the Company's invested assets were classified as available-for-sale. Realized gains and losses on the sale of investments are determined on the specific identification method.

Securities are regularly evaluated and reviewed for differences between the cost and estimated fair value of each security for factors that may indicate that a decline in fair value is other-than-temporary. When, in the opinion of management, a decline in the fair value of an investment is considered to be other-than-temporary, such investment is written down to its fair value. Some factors considered in evaluating whether or not a decline in fair value is other-than-temporary include, but are not limited to:

- the duration and extent to which the fair value has been less than cost;
- with respect to equity securities, whether the Company's ability and intent to retain the investment for aperiod of time sufficient to allow for a recovery in value; and
- with respect to fixed maturity securities, whether the Company has the intent to sell or will more likely than not be required to sell a particular security before recovery in value.

These factors are reviewed quarterly and any material degradation in the prospect for recovery will be considered in the other-than-temporary impairment analysis. Such reviews are inherently uncertain and the value of the investment may not fully recover or may decline in future periods resulting in a realized loss. The fair values of the majority of the Company's investments are based on quoted market prices from independent pricing services.

Deferred Tax Asset

The Company recorded net deferred tax assets at December 31, 2009 and 2008 related primarily to reserves for claims, allowance for doubtful accounts, employee benefits and other-than-temporary impairment of assets. Based upon the Company's historical results of operations, the existing financial condition of the Company and management's assessment of all other available information, management believes that it is more likely than not that the benefit of these assets will be realized.

Results of Operations

Operating Revenues

Operating revenues include net premiums written plus other fee income, trust income and exchange services income. Investment income and realized investment gains and losses are not included in operating revenues and are discussed separately following operating revenues. Following is a summary of the Company's operating revenues. Intersegment eliminations have been netted with each segment; therefore, the individual segment amounts will not agree to Note 13 in the accompanying Consolidated Financial Statements.

	2009		2008	
Title Insurance	$ 64,303,556	94.5%	$ 65,507,644	94.3%
All Other	3,719,577	5.5%	3,979,258	5.7%
	$ 68,023,133	100%	$ 69,486,902	100%

Title Insurance

Net Premiums: Net premiums written decreased 2.4% in 2009 from 2008. The decrease was primarily due to the weak housing market and ongoing general declines in real estate activity.

Title Orders: Although net premiums written in 2009 decreased over 2008, the volume or total number of title orders increased in 2009, as 213,824 title orders were issued in 2009, which is an increase of 6.5% over the 200,791 title orders issued in 2008, reflecting a surge in mortgage refinancing transactions. While the level of mortgage refinance transactions insured declined from the first half of the year, refinance transactions remained a significant block of business in the second half.

Title insurance companies typically issue title insurance policies directly through branch offices or through title agencies. Following is a breakdown of premiums generated by branch and agency operations for the years ended December 31:

	2009	%	2008	%
Branch	$ 21,474,082	35	$ 24,312,013	38
Agency	40,681,169	65	39,350,174	62
Total	$ 62,155,251	100	$ 63,662,187	100

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Branch Office Net Premiums: In the Company’s branch operations, the title insurer issues the insurance policy and retains the entire premium paid in connection with the transaction. Branch office net premiums written as a percentage of total net premiums written were 35% and 38% in 2009 and 2008, respectively. Net premiums written from branch operations decreased 11.7% in 2009 compared with 2008. The decrease in 2009 primarily reflects the downturn in the real estate market. Of the Company’s 29 branch locations that underwrite title insurance policies, 27 are located in North Carolina, and as a result, branch premiums written primarily represent North Carolina business.

Agency Net Premiums: Agents retain the majority of the title premium collected, with the balance remitted to the title underwriter for bearing the risk of loss in the event that a claim is made under the title insurance policy. Agency net premiums written as a percentage of total net premiums written were 65% and 62% in 2009 and 2008, respectively. Net premiums written from agency operations increased 3.4% in 2009 compared with 2008. The increase in 2009 was primarily due to an increase in refinance activity, growth in the customer base through agents, increases in the percentage of Company policies originated by established agencies, as well as the addition of new agencies to the Company’s network.

Following is a schedule of net premiums written in all states where the Company’s two insurance subsidiaries ITIC and N-ITIC currently underwrite title insurance:

State	2009	2008
Illinois	$ 2,878,781	$ 2,140,440
Kentucky	3,194,530	2,957,744
Michigan	4,382,209	3,326,904
New York	2,825,762	2,106,033
North Carolina	27,134,685	30,527,923
Pennsylvania	2,664,037	1,762,444
South Carolina	5,755,790	7,556,153
Tennessee	2,416,019	2,063,411
Virginia	5,015,185	5,789,337
West Virginia	2,239,908	2,077,603
Other	3,732,218	3,462,391
Direct Premiums	62,239,124	63,770,383
Reinsurance Assumed	11,650	166,893
Reinsurance Ceded	(95,523)	(275,089)
Net Premiums Written	$ 62,155,251	$ 63,662,187

Exchange Services and Other Revenues

Exchange services revenues were $910,828 and $1,166,141 in 2009 and 2008, respectively. Operating revenues from the Company’s two subsidiaries that provide tax-deferred exchange services (ITEC and ITAC) decreased 21.9% from 2008 to 2009. Demand for tax-deferred exchange services has declined significantly due to weak appreciation or actual declines in value for many types of investment property. The decline in 2009 revenues compared with 2008 resulted primarily from decreases in transactional volume and related lower levels of interest-spread income earned on exchange fund deposits held by the Company due to declines in the average balances of deposits held and lower interest rates during 2009.

In July 2008, the Internal Revenue Service (“IRS”) finalized its proposed regulations regarding treatment of funds held by qualified intermediaries. As originally proposed, these rules would have negatively affected the ability of qualified intermediaries to retain a portion of the interest income earned on exchange fund deposits held by the Company during exchange transactions, which could have had a material adverse effect upon the profitability of the Company’s exchange business. As adopted however, the new regulations apply only to individual exchange account balances over $2 million. The Company has had only limited experience under this new regime; it is possible that these new regulations may have unanticipated consequences on the revenues and profitability of the Company’s exchange services business.

Other revenues also primarily include investment management fee income, income related to the Company's other equity method investments and agency service fees, as well as search fee and other ancillary fees. These revenues were $4,957,054 in 2009 compared with $4,658,574 in 2008, due primarily to increases from equity in earnings of unconsolidated affiliates.

Cyclicality and Seasonality

Title insurance premiums are closely related to the level of real estate activity and the average price of real estate sales. The availability of funds to finance purchases directly affects real estate sales. Home sales and mortgage lending are highly cyclical businesses. Other factors include mortgage interest rates, consumer confidence, economic conditions, supply and demand, and family income levels. The Company's premiums in future periods will continue to be subject to these and other factors which are beyond management's control and, as a result, are likely to fluctuate.

Historically, real estate transactions have produced seasonal premium levels for title insurers. Residential real estate activity has been generally slower in the fall and winter months because fewer real estate transactions occur, while the spring and summer months are more active. Refinance activity is generally less seasonal, but it is subject to interest rate volatility. However, fluctuations in mortgage interest rates, as well as other economic factors, can cause shifts in real estate activity outside of the normal traditional seasonal pattern.

Seasonal factors affecting the level of real estate activity and the volume of title premiums written will also affect the demand for exchange services.

Nonoperating Revenues

Investment income and realized gains and losses from investments are included in nonoperating revenues.

Investment Income

The Company derives a substantial portion of its income from investments in municipal and corporate bonds and equity securities. The Company's title insurance subsidiaries are required by statute to maintain minimum levels of investments in order to protect the interests of policyholders. Bonds totaling approximately $6,960,000 and $6,540,000 at December 31, 2009 and 2008, respectively, are deposited with the insurance departments of the states in which business is conducted.

In formulating its investment strategy, the Company has emphasized after-tax income. Investments in marketable securities have increased from Company profits. The investments are primarily in fixed maturity securities and, to a lesser extent, equity securities. The effective maturity of the majority of the fixed income investments is within 10 years. The Company's invested assets are managed in consideration of enterprise-wide objectives intended to assure solid funding of its obligations, as well as evaluations of their long-term effect on stability of capital accounts.

As new funds become available, they are invested in accordance with the Company's investment policy and corporate goals. The Company's investment policies have been designed to balance multiple investment goals, including to assure a stable source of income from interest and dividends, protect capital, provide sufficient liquidity to meet insurance underwriting and other obligations as they become payable in the future and capital appreciation. Securities purchased may include a combination of taxable fixed-income securities, tax-exempt securities and equities. The Company strives to maintain a high quality investment portfolio. Interest and investment income levels are primarily a function of general market performance, interest rates and the amount of cash available for investment.

Investment income was $3,783,116 in 2009 compared with $4,558,735 in 2008. The decline in investment income in 2009 was due primarily to lower levels of interest earned on short-term funds. See Note 3 in the accompanying Consolidated Financial Statements for the major categories of investments, scheduled maturities, amortized cost, fair values of investment securities and earnings by security category.

Net Realized Loss on Investments

Dispositions of equity securities at a realized gain or loss reflect such factors as industry sector allocation decisions, ongoing assessments of issuers' business prospects and tax planning considerations. Additionally, the amount of net realized investment gains and losses are affected by assessments of securities' valuation for other-than-temporary impairment. As a result of the interaction of these factors and considerations, net realized investment gains or losses can vary significantly from period to period.

Net realized loss on investments totaled $498,089 in 2009 and $2,922,376 in 2008. The 2009 net loss included impairment charges totaling $758,661 on certain equity and equity method investments in the Company's portfolio that were deemed to be other-than-temporarily impaired. The 2008 net loss included impairment charges totaling $1,226,932 on certain equity and fixed income securities in the Company's portfolio that were deemed to be other-than-temporarily impaired and net realized losses on sales related to tax planning of $1,695,444. Management believes that unrealized losses on remaining fixed income and equity securities at December 31, 2009 are temporary in nature.

The securities in the Company's portfolio are subject to economic conditions and market risks. The Company considers relevant facts and circumstances in evaluating whether a credit or interest-rate related impairment of a security is other-than-temporary. Relevant facts and circumstances include the extent and length of time the fair value of an investment has been below cost.

There are a number of risks and uncertainties inherent in the process of monitoring impairments and determining if an impairment is other-than-temporary. These risks and uncertainties include the risk that the economic outlook will be worse than expected or have more of an impact on the issuer than anticipated, the risk that the Company's assessment of an issuer's ability to meet all of its contractual obligations will change based on changes in the characteristics of that issuer, the risk that information obtained by the Company or changes in other facts and circumstances leads management to change its intent to hold the equity security until it recovers in value or its intent to sell the debt security, and the risk that management is making decisions based on misstated information in the financial statements provided by issuers.

Expenses

The Company's operating expenses consist primarily of commissions to agents, salaries, employee benefits and payroll taxes, provisions for claims and office occupancy and operations. Operating expenses in 2009 decreased 12.0% compared with 2008 primarily due to decreases in the provision for claims and in salaries employee benefits and payroll taxes partially offset by an increase in commissions. Following is a summary of the Company's operating expenses. Intersegment eliminations have been netted; therefore, the individual segment amounts will not agree to Note 13 in the accompanying Consolidated Financial Statements.

	2009		2008	
Title Insurance	$ 61,152,624	93.5%	$ 69,226,504	93.1%
All Other	4,239,757	6.5%	5,113,556	6.9%
	$ 65,392,381	100%	$ 74,340,060	100%

On a combined basis, profit margin was 6.8% in 2009 and loss margin was (1.7%) in 2008. Total revenues increased 0.3% in 2009 and operating expenses decreased, contributing to a higher combined profit margin for 2009.

Title Insurance

Profit (Loss) Margin: The Company's title insurance profit margin varies according to a number of factors, including the volume and type of real estate activity. Profit (loss) margins for the title insurance segment were 7.7% and (1.4%) in 2009 and 2008, respectively.

Commissions: Agent commissions represent the portion of premiums retained by agents pursuant to the terms of their respective agency contracts. Commissions to agents increased 5.5% from 2008 to 2009 primarily due to increased premiums from agency operations in 2009. Commission expense as a percentage of net premiums written by agents was 71.9% and 70.4% in 2009 and 2008, respectively. Commission rates vary by the geographic area in which the commission is paid and may be influenced by state regulations.

Provisions for Claims: The provision for claims as a percentage of net premiums written was 13.6% and 23.9% in 2009 and 2008, respectively. The change in the loss provision rate for calendar year 2009 compared with 2008 was favorable primarily because 2008 was impacted by two large claims related to fraud and one large mechanic's lien claim totaling in the aggregate approximately $6.8 million. The decrease in the loss provision rate for calendar year 2009 compared with 2008 was partially offset by unfavorable experience for policy years 2006 and 2007.

In 2008, the Company incurred unfavorable experience for claims related to policy year 2006 totaling approximately $1.9 million. Partially offsetting the change in the loss provision estimate for calendar year 2008 was favorable experience for policy year 2007 because of a reduction in large claim activity.

The decrease in the loss provision in 2009 from the 2008 level resulted in approximately $6.4 million less in reserves than would have been recorded at the higher 2008 level. If material occurrences of mortgage-related fraud, mechanic lien claims and other similar types of claims continue, the Company's ultimate loss estimates for recent policy years could increase.

Title claims are typically reported and paid within the first several years of policy issuance. The provision for claims reflects actual payments of claims, net of recovery amounts, plus adjustments to the specific and incurred but not reported claims reserves, the latter of which are actuarially determined based on historical claims experience. Payments of claims, net of recoveries, were $8,213,123 and $12,943,637 in 2009 and 2008, respectively.

Reserves for Claims: At December 31, 2009, the total reserves for claims were $39,490,000. Of that total, $6,398,623 was reserved for specific claims, and $33,091,377 was reserved for claims for which the Company had no notice. Because of the uncertainty of future claims, changes in economic conditions, and the fact that many claims do not materialize for several years, reserve estimates are subject to variability.

Changes in the expected liability for claims for prior periods reflect the uncertainty of the claim environment, as well as the limited predicting power of historical data. The Company continually updates and refines its reserve estimates as current experience develops and credible data emerges. Adjustments may be required as new information develops which often varies from past experience.

Movements in the reserves related to prior periods were primarily the result of changes to estimates to better reflect the latest reported loss data, rather than as a result of material changes to underlying key actuarial assumptions or methodologies. Such changes include payments on claims closing during the year, new details that emerge on still-open cases that cause claims adjusters to increase or decrease the case reserve and the impact that these types of changes have on the Company's total loss provision. See "Critical Accounting Estimates" for further discussion relating to the Company's reserve for claim losses and the related charges.

Salaries, Employee Benefits and Payroll Taxes: Personnel costs include base salaries, benefits and bonuses paid to employees. Salaries, employee benefits and payroll taxes were $18,189,483 and $19,605,500 for 2009 and 2008, respectively. Salaries and related costs decreased $1.4 million, or 7.2% in 2009 compared with 2008. The decrease in 2009 was primarily due to a reduction in headcount and a reduction in employee benefit expenses. On a consolidated basis, salaries and employee benefits as a percentage of total revenues were 25.5% and 27.6% in 2009 and 2008, respectively.

Office Occupancy and Operations: Overall office occupancy and operations as a percentage of total revenues was 6.1% and 7.2% in 2009 and 2008, respectively. The decrease in office occupancy and operations expense in 2009 compared with 2008 was due to a decrease in various items, including depreciation.

Premium and Retaliatory Taxes: Title insurance companies are generally not subject to state income or franchise taxes. However, in most states they are subject to premium and retaliatory taxes, as defined by statute. Premium tax rates vary from state to state; accordingly, the total premium tax burden is dependent upon the geographical mix of operating revenues. Premium and retaliatory taxes as a percentage of net premiums written remained constant at 2.0% for both the years ended December 31, 2009 and 2008.

Professional and Contract Labor Fees: Professional and contract labor fees for 2009 decreased $0.4 million compared with 2008 primarily due to decreases in contract labor fees associated with investments in infrastructure and technology compared with 2008.

Other Expenses: Other operating expenses primarily include miscellaneous operating expenses of the trust division and other miscellaneous expenses of the title segment. These amounts typically fluctuate in relation with transaction volume of the title segment and the trust division.

Income Taxes

The provision (benefit) for income taxes was $1,087,000 and $(2,034,000) for the years ended December 31, 2009 and 2008, respectively. The income tax benefit in 2008 was a result of the Company's net loss from operations and reflects a lower effective tax rate, primarily due to an increase in the proportion of tax-exempt investment income to pre-tax loss. Income tax expense (benefit) as a percentage of earnings (loss) before income taxes was 18.4% and 63.2%, for the years ended December 31, 2009 and 2008, respectively. The effective income tax rate for 2009 was below the U.S. federal statutory income tax rate (34%), primarily due to the proportion of tax-exempt investment income to pre-tax income. Generally, when pretax income is recognized, tax-exempt income has the effect of lowering the effective tax rate. Since a pretax loss was recognized in 2008, tax-exempt income had the effect of increasing the 2008 effective tax rate.

The Company believes it is more likely than not that the tax benefits associated with recognized, impairment and unrecognized losses recorded through December 31, 2009 will be realized. However, this judgment could be impacted by further market fluctuations. Information regarding the components of the income tax expense and items included in the reconciliation of the effective rate with the federal statutory rate can be found in Note 8 to the accompanying Consolidated Financial Statements.

Net Income (Loss)

The Company reported net income for 2009 of $4,828,779 and a net loss for 2008 of $1,182,799, or $2.10 and $(0.50) per share on a diluted basis. Total revenues for 2009 increased 0.3% to $71,308,160 from $71,123,261 in 2008, while expenses for 2009 decreased 12.0% to $65,392,381 from $74,340,060. In the past year, the Company's premiums written benefited from a surge in mortgage refinancing which occurred primarily in the first six months of 2009. Operational expenses compared favorably to the prior year period primarily due to the increase in fraud and mechanic lien claims experienced at the end of 2008. The Company's claims experience greatly improved from the prior year. The net loss in 2008 primarily resulted from the increase in the provision for claims.

Liquidity and Capital Resources

Liquidity: Cash flow generated from operating activities increased from 2008 to 2009, primarily due to the increase in net income in 2009 and a net operating loss carryback from 2008 that the Company used to reduce taxes for 2009. Cash and cash equivalents at year end increased $3.6 million from the prior year to approximately $8.7 million, due to cash provided by operating activities in 2009.

Due to the Company's historical consistent ability to generate positive cash flows from its consolidated operations and investment income, management believes that funds generated from operations will enable the Company to adequately meet its current operating needs for the foreseeable future. However, there can be no assurance that future experience will be similar to historical experience, since it is influenced by such factors as the interest rate environment, the Company's claims-paying ability and its financial strength ratings. The Company is unaware of any trend that is likely to result in material adverse liquidity changes, but continually assesses its capital allocation strategy, including decisions relating to repurchasing the Company's stock and/or conserving cash. The Company's current cash requirements include general operating expenses, income taxes, capital expenditures, dividends on its common stock declared by the Board of Directors and share repurchases of its common stock.

In addition to operational liquidity, the Company maintains a high degree of liquidity within its investment portfolio in the form of short-term investments and other readily marketable securities.

The majority of the Company's investment portfolio is considered as available-for-sale. The Company reviews the status of each of its securities quarterly to determine whether an other-than-temporary impairment has occurred.

Cash Flows: Net cash flows provided by operating activities were $7,381,269 and $1,309,473 in 2009 and 2008, respectively. Cash flows from operations have been the primary source of financing for expanding operations, additions to property and equipment, dividends to shareholders, and operating requirements. Cash used in operations in 2008 included payments of claims totaling $12,943,637.

The principal non-operating use of cash and cash equivalents in 2009 was for purchases of securities to the investment portfolio and, to a lesser extent, dividends paid and repurchases of common stock. The principal non-operating use of cash and cash equivalents in 2008 was for repurchases of common stock. The net effect of all activities on total cash and cash equivalents was an increase of $3,578,175 for 2009 and $2,154,284 for 2008. As of December 31, 2009, the Company held cash and cash equivalents of $8,733,221, short-term investments of $20,717,434 and fixed maturity securities of $88,803,186.

