INVESTORS TITLE CO
Form 10-Q
August 08, 2014

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

FORM 10-Q

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

For the quarterly period ended June 30, 2014

OR

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

For the transition period from ___________________ to ___________________

Commission File Number: 0-11774

INVESTORS TITLE COMPANY
(Exact name of registrant as specified in its charter)

North Carolina	56-1110199
(State of incorporation)	(I.R.S. Employer Identification No.)

121 North Columbia Street, Chapel Hill, North Carolina 27514
(Address of principal executive offices) (Zip Code)

(919) 968-2200
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes X No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	Accelerated filer X	Non-accelerated filer	Smaller reporting company

(do not check if a smaller
reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No X

As of July 16, 2014, there were 2,028,915 common shares of the registrant outstanding.

INVESTORS TITLE COMPANY
AND SUBSIDIARIES

INDEX

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Investors Title Company and Subsidiaries
Consolidated Balance Sheets
As of June 30, 2014 and December 31, 2013
(Unaudited)

	June 30, 2014	December 31, 2013
Assets:		
Investments in securities:		
Fixed maturities, available-for-sale, at fair value (amortized cost: 2014: $86,162,748; 2013: $87,980,160)	$90,978,622	$91,445,413
Equity securities, available-for-sale, at fair value (cost: 2014: $23,450,256; 2013: $22,200,369)	38,193,808	36,144,065
Short-term investments	9,695,708	7,926,373
Other investments	7,949,171	7,247,831
Total investments	146,817,309	142,763,682
Cash and cash equivalents	19,501,886	23,626,761
Premium and fees receivable	8,630,916	8,750,224
Accrued interest and dividends	981,541	1,006,698
Prepaid expenses and other assets	8,459,543	7,466,141
Property, net	4,981,955	4,325,538
Current income taxes recoverable	1,879,224	366,772
Total Assets	$191,252,374	$188,305,816
Liabilities and Stockholders' Equity		
Liabilities:		
Reserves for claims	$35,628,000	$35,360,000
Accounts payable and accrued liabilities	17,225,696	20,324,190
Deferred income taxes, net	5,496,643	4,013,983
Total liabilities	58,350,339	59,698,173
Commitments and Contingencies	—	—
Redeemable Noncontrolling Interest	—	545,489
Stockholders' Equity:		
Preferred stock (1,000,000 authorized shares; no shares issued)	—	—
Common stock - no par value (10,000,000 authorized shares; 2,029,819 and 2,037,135 shares issued and outstanding 2014 and 2013, respectively, excluding 291,676 shares for 2014 and 2013 of common stock held by the Company's subsidiary)	1	1
Retained earnings	120,148,704	116,714,749
Accumulated other comprehensive income	12,753,330	11,347,404
Total stockholders' equity	132,902,035	128,062,154
Total Liabilities and Stockholders' Equity	$191,252,374	$188,305,816

See notes to the Consolidated Financial Statements.

Investors Title Company and Subsidiaries
Consolidated Statements of Income
For the Three and Six Months Ended June 30, 2014 and 2013
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues:				
Net premiums written	$29,849,853	$30,429,761	$54,759,105	$54,355,758
Investment income - interest and dividends	1,039,435	925,047	2,065,851	1,845,532
Net realized gain on investments	92,082	55,272	584,219	71,616
Other	2,240,183	2,283,320	4,266,452	4,268,767
Total Revenues	33,221,553	33,693,400	61,675,627	60,541,673
Operating Expenses:				
Commissions to agents	18,346,381	17,608,789	33,802,659	31,098,220
Provision for claims	294,281	996,870	2,669,664	607,812
Salaries, employee benefits and payroll taxes	6,454,930	6,249,723	12,640,691	12,400,473
Office occupancy and operations	1,246,644	1,026,108	2,426,971	2,100,341
Business development	511,763	452,353	1,029,657	881,086
Filing fees, franchise and local taxes	225,343	188,950	414,943	369,520
Premium and retaliatory taxes	546,091	530,524	840,565	971,047
Professional and contract labor fees	666,909	535,207	1,354,967	1,110,544
Other	250,167	234,826	459,951	381,162
Total Operating Expenses	28,542,509	27,823,350	55,640,068	49,920,205
Income before Income Taxes	4,679,044	5,870,050	6,035,559	10,621,468
Provision for Income Taxes	1,281,000	1,846,000	1,652,000	3,211,000
Net Income	3,398,044	4,024,050	4,383,559	7,410,468
Net Income Attributable to Redeemable Noncontrolling Interest	(24,446)	(18,375)	(23,523)	(28,063)
Net Income Attributable to the Company	$3,373,598	$4,005,675	$4,360,036	$7,382,405
Basic Earnings per Common Share	$1.66	$1.94	$2.14	$3.59
Weighted Average Shares Outstanding – Basic	2,034,931	2,063,797	2,036,047	2,054,300
Diluted Earnings per Common Share	$1.65	$1.92	$2.14	$3.54
Weighted Average Shares Outstanding – Diluted	2,039,202	2,089,674	2,041,268	2,087,229
Cash Dividends Paid per Common Share	$0.08	$0.08	$0.16	$0.16

See notes to the Consolidated Financial Statements.

2

Investors Title Company and Subsidiaries
Consolidated Statements of Comprehensive Income
For the Three and Six Months Ended June 30, 2014 and 2013
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income	$3,398,044	$4,024,050	$4,383,559	$7,410,468
Other comprehensive income (loss), before tax:				
Amortization (accretion) related to prior year service cost	555	(379)	1,109	(759)
Amortization of unrecognized loss	—	1,574	—	3,147
Unrealized gains (losses) on investments arising during the period	2,208,475	(1,649,518)	2,984,115	749,471
Reclassification adjustment for sales of securities included in net income	(68,364)	(70,857)	(833,636)	(105,686)
Reclassification adjustment for write-downs of securities included in net income	—	15,585	—	34,070
Other comprehensive income (loss), before tax	2,140,666	(1,703,595)	2,151,588	680,243
Income tax expense related to postretirement health benefits	189	408	377	813
Income tax expense (benefit) related to unrealized gains (losses) on investments arising during the year	761,231	(568,422)	1,031,035	260,323
Income tax benefit related to reclassification adjustment for sales of securities included in net income	(23,213)	(24,609)	(285,750)	(36,598)
Income tax expense related to reclassification adjustment for write-downs of securities included in net income	—	6,007	—	13,134
Net income tax expense (benefit) on other comprehensive income (loss)	738,207	(586,616)	745,662	237,672
Other comprehensive income (loss)	1,402,459	(1,116,979)	1,405,926	442,571
Comprehensive Income	$4,800,503	$2,907,071	$5,789,485	$7,853,039
Comprehensive income attributable to redeemable noncontrolling interest	(24,446)	(18,375)	(23,523)	(28,063)
Comprehensive Income Attributable to the Company	$4,776,057	$2,888,696	$5,765,962	$7,824,976

See notes to the Consolidated Financial Statements.

Investors Title Company and Subsidiaries
Consolidated Statements of Stockholders' Equity
For the Six Months Ended June 30, 2014 and 2013
(Unaudited)

	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Shares	Amount			
Balance, January 1, 2013	2,043,359	$1	$105,820,459	$8,818,430	$114,638,890
Net income attributable to the Company			7,382,405		7,382,405
Dividends ($0.16 per share)			(329,569)		(329,569)
Shares of common stock repurchased and retired	(19,460)		(1,378,131)		(1,378,131)
Stock options and stock appreciation rights exercised	49,749		68,032		68,032
Share-based compensation expense			40,092		40,092
Amortization related to postretirement health benefits				1,575	1,575
Net unrealized gain on investments				440,996	440,996
Income tax benefit from share-based compensation			935,563		935,563
Balance, June 30, 2013	2,073,648	$1	$112,538,851	$9,261,001	$121,799,853
Balance, January 1, 2014	2,037,135	$1	$116,714,749	$11,347,404	$128,062,154
Net income attributable to the Company			4,360,036		4,360,036
Dividends ($0.16 per share)			(325,822)		(325,822)
Shares of common stock repurchased and retired	(8,823)		(584,121)		(584,121)
Stock options and stock appreciation rights exercised	1,507		27,100		27,100
Share-based compensation expense			55,083		55,083
Amortization related to postretirement health benefits				732	732
Net unrealized gain on investments				1,405,194	1,405,194
Purchase of redeemable noncontrolling interest of subsidiary			(114,320)		(114,320)
Income tax benefit from share-based compensation			15,999		15,999
Balance, June 30, 2014	2,029,819	$1	$120,148,704	$12,753,330	$132,902,035

See notes to the Consolidated Financial Statements.

Investors Title Company and Subsidiaries
Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2014 and 2013
(Unaudited)

	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Operating Activities		
Net income	$4,383,559	$7,410,468
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	406,133	292,732
Amortization, net	301,398	215,253
Amortization related to postretirement benefits obligation	1,109	2,388
Share-based compensation expense related to stock options	55,083	40,092
Net (gain) loss on the disposals of property	(1,900)	1,435
Net realized gain on investments	(584,219)	(71,616)
Net earnings from other investments	(684,781)	(815,714)
Provision for claims	2,669,664	607,812
Provision for deferred income taxes	737,000	1,517,000
Changes in assets and liabilities:		
Decrease in receivables	119,308	230,631
Increase in other assets	(1,003,088)	(3,315,234)
Increase in current income taxes recoverable	(1,512,452)	(771,419)
(Decrease) increase in accounts payable and accrued liabilities	(3,098,494)	1,698,084
Decrease in current income taxes payable	—	(1,336,824)
Payments of claims, net of recoveries	(2,401,664)	(918,812)
Net cash (used in) provided by operating activities	(613,344)	4,786,276
Investing Activities		
Purchases of available-for-sale securities	(5,184,440)	(641,302)
Purchases of short-term securities	(3,770,868)	(3,835,960)
Purchases of other investments	(786,575)	(780,778)
Purchase of subsidiary	—	(350,000)
Proceeds from sales and maturities of available-for-sale securities	6,319,047	5,230,400
Proceeds from sales and maturities of short-term securities	2,001,533	1,325,143
Proceeds from sales and distributions of other investments	494,365	1,072,467
Proceeds from sales of other assets	26,233	25,308
Purchase of redeemable noncontrolling interest of subsidiary	(515,275)	—
Purchases of property	(1,062,550)	(538,466)
Proceeds from the sale of property	1,900	3,135
Net cash (used in) provided by investing activities	(2,476,630)	1,509,947
Financing Activities		
Repurchases of common stock	(584,121)	(1,378,131)
Exercises of stock options and SARs	27,100	68,032
Distributions to noncontrolling interest	(168,057)	—
Excess tax benefits related to exercise of stock options and SARs	15,999	935,563
Dividends paid	(325,822)	(329,569)
Net cash used in financing activities	(1,034,901)	(704,105)

Net (Decrease) Increase in Cash and Cash Equivalents	(4,124,875)	5,592,118
Cash and Cash Equivalents, Beginning of Period	23,626,761	20,810,018
Cash and Cash Equivalents, End of Period	$19,501,886	$26,402,136

5

Consolidated Statements of Cash Flows, continued

	Six Months Ended June 30,	
	2014	2013
Supplemental Disclosures:		
Cash Paid During the Year for:		
Income tax payments, net	$2,414,900	$2,892,000
Non Cash Investing and Financing Activities		
Non cash net unrealized gain on investments, net of deferred tax provision of $(745,285) and $(236,859) for 2014 and 2013, respectively	$(1,405,194)	$(440,996)

See notes to the Consolidated Financial Statements.

INVESTORS TITLE COMPANY
AND SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2014
(Unaudited)

Note 1 - Basis of Presentation and Significant Accounting Policies

Reference should be made to the “Notes to Consolidated Financial Statements” appearing in the Annual Report on Form 10-K for the year ended December 31, 2013 of Investors Title Company (the “Company”) for a complete description of the Company’s significant accounting policies.

Principles of Consolidation – The accompanying unaudited Consolidated Financial Statements include the accounts and operations of Investors Title Company and its subsidiaries, and have been prepared in accordance with generally accepted accounting principles for interim financial information, with the instructions to Form 10-Q and with Article 10 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in annual financial statements have been condensed or omitted. Earnings attributable to the Company's redeemable noncontrolling interest in a majority-owned insurance agency are recorded in the Consolidated Statements of Income. The redeemable noncontrolling interest representing the portion of equity not related to the Company's ownership interest is recorded as redeemable equity in a separate section of the Consolidated Balance Sheets. All intercompany balances and transactions have been eliminated in consolidation.

In the opinion of management, all adjustments considered necessary for a fair presentation of the financial position, results of operations and cash flows of the Company in the accompanying unaudited Consolidated Financial Statements have been included. All such adjustments are of a normal recurring nature. Operating results for the quarter ended June 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

Reclassification – Certain 2013 amounts in the accompanying unaudited Consolidated Financial Statements have been reclassified to conform to the 2014 classifications. These reclassifications had no effect on stockholders’ equity or net income as previously reported.

Immaterial Classification Correction – During the six months ended June 30, 2013, the Company realized $935,563 in excess tax benefits associated with the exercise of stock options and stock appreciation rights (“SARs”). Such amounts were mistakenly classified as part of operating activities rather than financing activities. Accordingly, the Consolidated Statements of Cash Flows have been corrected. The correction resulted in a decrease to previously reported operating cash flows and an increase to financing cash flows in the amount of $935,563 for the six months ended June 30, 2013. There was no impact to the Consolidated Balance Sheets, Consolidated Statements of Income, Consolidated Statements of Comprehensive Income, Consolidated Statements of Stockholders’ Equity or to the Company’s cash position.

Allowance for Doubtful Accounts – Company management continually evaluates the collectability of receivables and provides an allowance for doubtful accounts equal to estimated losses expected to be incurred in the collection of premiums and fees receivable. During the second quarter of 2014, the Company changed its presentation of gross premiums and fees receivable and related allowance for doubtful accounts and now reports them net of certain commitments not expected to result in issued title insurance policies. The change had no impact to net premium and fees receivable, net premiums written, operating expenses or net income.

Use of Estimates and Assumptions – The preparation of the Company’s Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions used.

Subsequent Events – The Company has concluded that there were no material subsequent events requiring adjustment to or disclosure in its Consolidated Financial Statements.

Recently Issued Accounting Standards – In May 2014, the Financial Accounting Standards Board ("FASB") updated guidance to improve the comparability of revenue recognition practices for entities that either enter into contracts with customers to transfer goods or services or enter into contracts for the transfer of nonfinancial assets, unless those contracts are within the scope of other standards such as insurance contracts or lease standards. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. For public entities, this update becomes effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. The Company is currently evaluating the impact that the recently issued accounting standard will have on the Company's financial position and results of operations.

Note 2 - Reserves for Claims

Transactions in the reserves for claims for the six months ended June 30, 2014 and the year ended December 31, 2013 are summarized as follows:

	June 30, 2014	December 31, 2013
Balance, beginning of period	$35,360,000	$39,078,000
Provision (benefit), charged to operations	2,669,664	(571,596)
Payments of claims, net of recoveries	(2,401,664)	(3,146,404)
Ending balance	$35,628,000	$35,360,000

The total reserve for all reported and unreported losses the Company incurred through June 30, 2014 is represented by the reserves for claims. The Company's reserves for unpaid losses and loss adjustment expenses are established using estimated amounts required to settle claims for which notice has been received (reported) and the amount estimated to be required to satisfy claims that have been incurred but not yet reported ("IBNR"). Despite the variability of such estimates, management believes that the reserves are adequate to cover claim losses which might result from pending and future claims under policies issued through June 30, 2014. Management continually reviews and adjusts its reserve estimates to reflect its loss experience and any new information that becomes available. Adjustments resulting from such reviews may be significant.

A summary of the Company's loss reserves, broken down into its components of known title claims and IBNR, follows:

	June 30, 2014	%	December 31, 2013	%
Known title claims	$4,965,961	13.9	$4,670,809	13.2
IBNR	30,662,039	86.1	30,689,191	86.8
Total loss reserves	$35,628,000	100.0	$35,360,000	100.0

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

Note 3 - Earnings Per Common Share and Share Awards

Basic earnings per common share is computed by dividing net income attributable to the Company by the weighted-average number of common shares outstanding during the reporting period. Diluted earnings per common share is computed by dividing net income attributable to the Company by the combination of dilutive potential common stock, comprised of shares issuable under the Company's share-based compensation plans and the weighted average number of common shares outstanding during the reporting period. Dilutive common share equivalents include the dilutive effect of in-the-money share-based awards, which are calculated based on the average share price for each period using the treasury stock method. Under the treasury stock method, when share-based awards are exercised, (a) the exercise price of a share-based award; (b) the amount of compensation cost, if any, for future services that the Company has not yet recognized; and (c) the amount of estimated tax benefits that would be recorded in retained earnings, if any, are assumed to be used to repurchase shares in the current period. The number of incremental dilutive potential common shares, calculated using the treasury stock method, was 4,271 and 25,877 for the three months ended June 30, 2014 and 2013, respectively, and 5,221 and 32,929 for the six months ended June 30, 2014 and 2013, respectively.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income attributable to the Company	$3,373,598	$4,005,675	$4,360,036	$7,382,405
Weighted average common shares outstanding – Basic	2,034,931	2,063,797	2,036,047	2,054,300
Incremental shares outstanding assuming the exercise of dilutive stock options and SARs (share-settled)	4,271	25,877	5,221	32,929
Weighted average common shares outstanding – Diluted	2,039,202	2,089,674	2,041,268	2,087,229
Basic earnings per common share	$1.66	$1.94	$2.14	$3.59
Diluted earnings per common share	$1.65	$1.92	$2.14	$3.54

There were 3,000 potential shares excluded from the computation of diluted earnings per share for the three months ended June 30, 2014 and 2013. There were no potential shares excluded from the computation of diluted earnings per share for the six months ended June 30, 2014. There were 3,000 potential shares excluded from the computation of diluted earnings per share for the six months ended June 30, 2013. These potential shares were anti-dilutive because the underlying share awards were out-of-the-money.

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

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

	Number Of Shares	Weighted Average Exercise Price	Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding as of January 1, 2013	98,150	$30.74	3.17	$2,871,710
SARs granted	3,000	71.59		
SARs exercised	(79,500)	28.77		
Options exercised	(2,650)	28.63		
Options/SARs canceled/forfeited/expired	—	—		
Outstanding as of December 31, 2013	19,000	$45.74	3.43	$669,610
SARs granted	4,500	68.70		
SARs exercised	(1,500)	49.04		
Options exercised	(1,000)	27.21		
Options/SARs canceled/forfeited/expired	—	—		
Outstanding as of June 30, 2014	21,000	$51.30	4.15	$356,160
Exercisable as of June 30, 2014	17,625	$47.97	3.62	$356,160
Unvested as of June 30, 2014	3,375	$68.70	6.90	$—

During the second quarters of both 2014 and 2013, the Company issued a total of 3,000 share-settled SARs to the directors of the Company. SARs give the holder the right to receive stock equal to the appreciation in the value of shares of stock from the grant date for a specified period of time, and as a result, are accounted for as equity instruments. The fair value of each award is estimated on the date of grant using the Black-Scholes option valuation model with the weighted-average assumptions noted in the table shown below. Expected volatilities are based on both the implied and historical volatility of the Company's stock. The Company uses historical data to project SAR exercises and pre-exercise forfeitures within the valuation model. The expected term of awards represents the period of time that SARs granted are expected to be outstanding. The interest rate assumed for the expected life of the award is based on the U.S. Treasury yield curve in effect at the time of the grant. The weighted-average fair values for the SARs issued during 2014 and 2013 were $28.98 and $27.55, respectively.

The weighted-average fair values for SARs issued during 2014 and 2013 were estimated using the weighted-average assumptions shown in the table below:

	2014	2013
Expected life in years	6.9	5.0
Volatility	39.9 %	44.6 %
Interest rate	2.1 %	1.3 %
Yield rate	0.4 %	0.5 %

There was approximately $55,000 and $40,000 of compensation expense relating to SARs or options vesting on or before June 30, 2014 and 2013, included in salaries, employee benefits and payroll taxes in the Consolidated Statements of Income. As of June 30, 2014, there was approximately $98,000 of total unrecognized compensation cost related to unvested share-based compensation arrangements granted under the Company's stock award plans. That cost is expected to be recognized over a weighted-average period of approximately 6 months.

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

Note 4 – Segment Information

The Company has one reportable segment, title insurance services. The remaining immaterial segments have been combined into a group called "All Other."

The title insurance segment primarily issues title insurance policies through approved attorneys from underwriting offices and through independent issuing agents. Title insurance policies insure titles to real estate.

Provided below is selected financial information about the Company's operations by segment for the periods ended June 30, 2014 and 2013:

Three Months Ended June 30, 2014	Title Insurance	All Other	Intersegment Eliminations	Total
Insurance and other services revenues	$31,068,218	$1,447,431	$(425,613)	$32,090,036
Investment income	937,692	125,077	(23,334)	1,039,435
Net realized gain (loss) on investments	92,920	(838)	—	92,082
Total revenues	$32,098,830	$1,571,670	$(448,947)	$33,221,553
Operating expenses	27,590,537	1,360,164	(408,192)	28,542,509
Income before income taxes	$4,508,293	$211,506	$(40,755)	$4,679,044
Total assets	$148,524,746	$42,727,628	$—	$191,252,374
Three Months Ended June 30, 2013	**Title Insurance**	**All Other**	**Intersegment Eliminations**	**Total**
Insurance and other services revenues	$31,691,606	$1,382,206	$(360,731)	$32,713,081
Investment income	858,168	90,213	(23,334)	925,047
Net realized gain (loss) on investments	59,473	(4,201)	—	55,272
Total revenues	$32,609,247	$1,468,218	$(384,065)	$33,693,400
Operating expenses	26,580,339	1,586,320	(343,309)	27,823,350
Income (loss) before income taxes	$6,028,908	$(118,102)	$(40,756)	$5,870,050
Total assets	$144,732,176	$35,793,158	$—	$180,525,334

Six Months Ended June 30, 2014	Title Insurance	All Other	Intersegment Eliminations	Total
Insurance and other services revenues	$56,875,668	$2,900,732	$(750,843)	$59,025,557
Investment income	1,866,204	246,315	(46,668)	2,065,851
Net realized gain on investments	530,528	53,691	—	584,219
Total revenues	$59,272,400	$3,200,738	$(797,511)	$61,675,627
Operating expenses	53,315,465	3,040,604	(716,001)	55,640,068
Income before income taxes	$5,956,935	$160,134	$(81,510)	$6,035,559
Total assets	$148,524,746	$42,727,628	$—	$191,252,374
Six Months Ended June 30, 2013	Title Insurance	All Other	Intersegment Eliminations	Total
Insurance and other services revenues	$56,720,164	$2,608,457	$(704,096)	$58,624,525
Investment income	1,706,823	185,377	(46,668)	1,845,532
Net realized gain (loss) on investments	91,074	(19,458)	—	71,616
Total revenues	$58,518,061	$2,774,376	$(750,764)	$60,541,673
Operating expenses	47,445,711	3,143,747	(669,253)	49,920,205
Income (loss) before income taxes	$11,072,350	$(369,371)	$(81,511)	$10,621,468
Total assets	$144,732,176	$35,793,158	$—	$180,525,334

Note 5 – Retirement Agreements and Other Postretirement Benefits

The Company’s subsidiary, Investors Title Insurance Company, is party to employment agreements with key executives that provide for the continuation of certain employee benefits and other payments due under the agreements upon retirement estimated to total $6,938,000 and $6,580,000 as of June 30, 2014 and December 31, 2013, respectively. The executive employee benefits include health insurance, dental, vision and life insurance and are unfunded. These amounts are classified as accounts payable and accrued liabilities in the Consolidated Balance Sheets. The following sets forth the net periodic benefits cost for the executive benefits for the periods ended June 30, 2014 and 2013:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Service cost – benefits earned during the year	$3,667	$3,945	$7,334	$7,891
Interest cost on the projected benefit obligation	7,618	7,103	15,236	14,206
Amortization (accretion) of unrecognized prior service cost	555	(379)	1,109	(759)
Amortization of unrecognized losses	—	1,574	—	3,147
Net periodic benefits costs	$11,840	$12,243	$23,679	$24,485

Note 6 - Fair Value Measurement

Valuation of Financial Assets and Liabilities

The FASB has established a valuation hierarchy for disclosure of the inputs to valuation used to measure fair value of financial assets and liabilities, such as securities. This hierarchy categorizes the inputs into three broad levels as follows. Level 1 inputs to the valuation methodology are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs to the valuation methodology are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. Level 3 inputs are unobservable inputs based on the Company’s own assumptions used to measure assets and liabilities at fair value.

A financial instrument's classification within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement – consequently, if there are multiple significant valuation inputs that are categorized in different levels of the hierarchy, the instrument's hierarchy level is the lowest level (with Level 3 being the lowest level) within which any significant input falls.

Debt and Equity Securities

The Level 1 category includes equity securities that are measured at fair value using quoted active market prices.

The Level 2 category includes fixed maturity investments such as corporate bonds, U.S. government and agency bonds and municipal bonds. Fair value is principally based on market values obtained from a third party pricing service. Factors that are used in determining fair market value include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. The Company receives one quote per security from a third party pricing service, although as discussed below, the Company does consult other pricing resources when confirming that the prices it obtains reflect the fair values of the instruments in accordance with Accounting Standards Codification ("ASC") 820, Fair Value Measurements and Disclosures. Generally, quotes obtained from the pricing service for instruments classified as Level 2 are not adjusted and are not binding. As of June 30, 2014 and December 31, 2013, the Company did not adjust any Level 2 fair values.

A number of the Company's investment grade corporate bonds are frequently traded in active markets, and trading prices are consequently available for these securities. However, these securities were classified as Level 2 because the pricing service from which the Company has obtained fair values for these instruments uses valuation models which use observable market inputs in addition to traded prices. Substantially all of the input assumptions used in the service's model are observable in the marketplace or can be derived or supported by observable market data.

The Level 3 category only includes the Company's investments in student loan auction rate securities ("ARS") because quoted prices were unavailable due to the failure of auctions. The Company's ARS portfolio is comprised entirely of investment grade student loan ARS. The par value of these securities was $1,000,000 as of June 30, 2014 and December 31, 2013, with approximately 97.0% as of June 30, 2014 and December 31, 2013, guaranteed by the U.S. Department of Education.

Some of the inputs to ARS valuation are unobservable in the market and are significant – therefore, the Company utilizes another third party pricing service to assist in the determination of the fair market value of these securities. This service uses a proprietary valuation model that considers factors such as the following: the financial standing of the issuer; reported prices and the extent of public trading in similar financial instruments of the issuer or comparable companies; the ability of the issuer to obtain required financing; changes in the economic conditions affecting the issuer; pricing by other dealers in similar securities; time to maturity; and interest rates. The following table summarizes some key assumptions the service used to determine fair value as of June 30, 2014 and December 31, 2013:

	2014	2013
Cumulative probability of earning maximum rate until maturity	—%	—%
Cumulative probability of principal returned prior to maturity	95.4%	95.6%
Cumulative probability of default at some future point	4.6%	4.4%

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

Based upon these inputs and assumptions, the pricing service provides a range of values to the Company for its ARS. The Company records the fair value based on the midpoint of the range and believes that this valuation is the most reasonable estimate of fair value. In 2014 and 2013, the difference in the low and high values of the ranges was between approximately zero and four percent of the carrying value of the Company's ARS.

The following table presents, by level, the financial assets carried at fair value measured on a recurring basis as of June 30, 2014 and December 31, 2013. The table does not include cash on hand and also does not include assets which are measured at historical cost or any basis other than fair value. Level 3 assets are comprised solely of ARS.

As of June 30, 2014	Level 1	Level 2	Level 3	Total
Short-term Investments	$9,695,708	$—	$—	$9,695,708
Equity Securities				
Common stock and nonredeemable preferred stock	38,193,808	—	—	38,193,808
Fixed Maturities				
Obligations of states and political subdivisions*	—	69,891,681	—	69,891,681
Corporate debt securities*	—	20,154,640	932,301	21,086,941
Total	$47,889,516	$90,046,321	$932,301	$138,868,138

As of December 31, 2013	Level 1	Level 2	Level 3	Total
Short-term Investments	$7,926,373	$—	$—	$7,926,373
Equity Securities				
Common stock and nonredeemable preferred stock	36,144,065	—	—	36,144,065
Fixed Maturities				
Obligations of states and political subdivisions*	—	72,091,721	—	72,091,721
Corporate debt securities*	—	18,417,992	935,700	19,353,692
Total	$44,070,438	$90,509,713	$935,700	$135,515,851

*Denotes fair market value obtained from pricing services.

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

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

Other Financial Instruments

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

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

Cash and cash equivalents

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

Cost-basis investments

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

Accrued dividends and interest

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

Contingent consideration

The fair value of contingent consideration was estimated based on the discounted value of future cash flows. Contingent consideration consists of additional monies the Company may become obligated to pay based on the future performance of a business the Company acquired, as discussed in Note 10. This item is included in accounts payable and accrued liabilities in the Consolidated Balance Sheets.

The carrying amounts and fair values of these financial instruments (please note investments are disclosed in a previous table) as of June 30, 2014 and December 31, 2013 are presented in the following table:

As of June 30, 2014	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
Financial Assets					
Cash	$19,501,886	$19,501,886	$19,501,886	$—	$—
Cost-basis investments	2,498,327	2,600,961	—	—	2,600,961
Accrued dividends and interest	981,541	981,541	981,541	—	—
Total Financial Assets	$22,981,754	$23,084,388	$20,483,427	$—	$2,600,961

As of December 31, 2013	Carrying Value	Estimated Fair Value	Level 1	Level