

INVESTORS TITLE CO  
Form 10-Q  
November 07, 2018

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

FORM 10-Q

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

For the quarterly period ended September 30, 2018

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-11774

INVESTORS TITLE COMPANY  
(Exact name of registrant as specified in its charter)  
North Carolina 56-1110199  
(State of incorporation) (I.R.S. Employer Identification No.)

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

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

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

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

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

Large accelerated filer    Accelerated filer   

Non-accelerated filer    (Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of October 22, 2018, there were 1,886,630 common shares of the registrant outstanding.

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INVESTORS TITLE COMPANY  
AND SUBSIDIARIES

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## Investors Title Company and Subsidiaries

## Consolidated Balance Sheets

As of September 30, 2018 and December 31, 2017

(in thousands)

(unaudited)

	September 30, 2018	December 31, 2017
Assets		
Cash and cash equivalents	\$ 36,862	\$ 20,214
Investments:		
Fixed maturities, available-for-sale, at fair value (amortized cost: September 30, 2018: \$91,336; December 31, 2017: \$100,314)	91,827	103,341
Equity securities, at fair value (cost: September 30, 2018: \$27,382; December 31, 2017: \$26,003)	51,372	47,367
Short-term investments	27,693	23,780
Other investments	11,997	12,032
Total investments	182,889	186,520
Premium and fees receivable	12,588	10,031
Accrued interest and dividends	1,242	1,100
Prepaid expenses and other receivables	7,601	7,730
Property, net	10,454	10,173
Goodwill and other intangible assets, net	10,906	11,357
Other assets	1,459	1,403
Current income taxes receivable	2,575	385
Total Assets	\$ 266,576	\$ 248,913
Liabilities and Stockholders' Equity		
Liabilities:		
Reserve for claims	\$ 32,375	\$ 34,801
Accounts payable and accrued liabilities	27,437	27,565
Deferred income taxes, net	11,223	8,626
Total liabilities	71,035	70,992
Commitments and Contingencies	—	—
Stockholders' Equity:		
Preferred stock (1,000 authorized shares; no shares issued)	—	—
Common stock – no par value (10,000 authorized shares; 1,887 and 1,886 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively, excluding in each period 292 shares of common stock held by the Company)	—	—
Retained earnings	195,220	161,891
Accumulated other comprehensive income	319	15,945
Total stockholders' equity attributable to the Company	195,539	177,836
Noncontrolling interests	2	85

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Total stockholders' equity	195,541	177,921
Total Liabilities and Stockholders' Equity	\$ 266,576	\$ 248,913

See notes to the Consolidated Financial Statements.

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Investors Title Company and Subsidiaries  
Consolidated Statements of Income  
For the Three and Nine Months Ended September 30, 2018 and 2017  
(in thousands, except per share amounts)  
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
<b>Revenues:</b>				
Net premiums written	\$39,422	\$37,428	\$104,123	\$104,838
Escrow and other title-related fees	1,812	1,470	5,465	5,427
Non-title services	1,795	1,620	5,083	4,498
Interest and dividends	1,138	1,087	3,381	3,298
Other investment income	829	610	2,279	1,605
Net realized investment gains	188	804	629	990
Net unrealized gain on equity investments	2,920	—	2,626	—
Other	157	116	387	397
<b>Total Revenues</b>	<b>48,261</b>	<b>43,135</b>	<b>123,973</b>	<b>121,053</b>
<b>Operating Expenses:</b>				
Commissions to agents	18,490	17,641	48,942	50,570
Provision for claims	997	1,855	155	2,715
Personnel expenses	11,096	10,082	33,234	29,982
Office and technology expenses	2,208	2,062	6,603	5,985
Other expenses	2,910	2,578	8,440	8,087
<b>Total Operating Expenses</b>	<b>35,701</b>	<b>34,218</b>	<b>97,374</b>	<b>97,339</b>
<b>Income before Income Taxes</b>	<b>12,560</b>	<b>8,917</b>	<b>26,599</b>	<b>23,714</b>
<b>Provision for Income Taxes</b>	<b>1,927</b>	<b>2,990</b>	<b>4,873</b>	<b>7,647</b>
<b>Net Income</b>	<b>10,633</b>	<b>5,927</b>	<b>21,726</b>	<b>16,067</b>
<b>Net Loss Attributable to Noncontrolling Interests</b>	<b>1</b>	<b>—</b>	<b>31</b>	<b>11</b>
<b>Net Income Attributable to the Company</b>	<b>\$10,634</b>	<b>\$5,927</b>	<b>\$21,757</b>	<b>\$16,078</b>
<b>Basic Earnings per Common Share</b>	<b>\$5.64</b>	<b>\$3.14</b>	<b>\$11.53</b>	<b>\$8.52</b>
<b>Weighted Average Shares Outstanding – Basic</b>	<b>1,887</b>	<b>1,887</b>	<b>1,886</b>	<b>1,886</b>
<b>Diluted Earnings per Common Share</b>	<b>\$5.61</b>	<b>\$3.13</b>	<b>\$11.47</b>	<b>\$8.48</b>
<b>Weighted Average Shares Outstanding – Diluted</b>	<b>1,897</b>	<b>1,896</b>	<b>1,896</b>	<b>1,896</b>

See notes to the Consolidated Financial Statements.





Investors Title Company and Subsidiaries  
Consolidated Statements of Comprehensive Income  
For the Three and Nine Months Ended September 30, 2018 and 2017  
(in thousands)  
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	\$10,633	\$5,927	\$21,726	\$16,067
Other comprehensive (loss) income, before tax:				
Amortization of unrecognized loss	—	2	—	6
Unrealized (losses) gains on investments arising during the period*	(618 )	1,879	(2,536 )	4,941
Reclassification adjustment for sales of securities included in net income*	—	(804 )	—	(977 )
Other comprehensive (loss) income, before tax	(618 )	1,077	(2,536 )	3,970
Income tax expense related to postretirement health benefits	—	1	—	2
Income tax (benefit) expense related to unrealized (losses) gains on investments arising during the period*	(131 )	643	(537 )	1,688
Income tax benefit related to reclassification adjustment for sales of securities included in net income*	—	(274 )	—	(334 )
Net income tax (benefit) expense on other comprehensive (loss) income	(131 )	370	(537 )	1,356
Other comprehensive (loss) income	(487 )	707	(1,999 )	2,614
Comprehensive Income	\$10,146	\$6,634	\$19,727	\$18,681
Comprehensive loss attributable to noncontrolling interests	1	—	31	11
Comprehensive Income Attributable to the Company	\$10,147	\$6,634	\$19,758	\$18,692

\* Amounts related to 2018 include fixed maturity securities only. Amounts related to 2017 include both fixed maturity and equity securities.

See notes to the Consolidated Financial Statements.

Investors Title Company and Subsidiaries  
Consolidated Statements of Stockholders' Equity  
For the Three and Nine Months Ended September 30, 2018 and 2017  
(in thousands, except per share amounts)  
(unaudited)

	Common Stock Shares	Retained Earnings Amount	Accumulated Other Comprehensive Income	Noncontrolling Interests	Total Stockholders' Equity
Balance, July 1, 2017	1,887	\$ — \$152,482	\$ 13,668	\$ 80	\$ 166,230
Net income attributable to the Company		5,927			5,927
Dividends paid (\$0.40 per share)		(754 )			(754 )
Repurchases of common stock	—	(41 )			(41 )
Exercise of stock appreciation rights	—	—			—
Share-based compensation expense related to stock appreciation rights		62			62
Amortization related to postretirement health benefits			1		1
Net unrealized gain on investments			706		706
Net loss attributable to noncontrolling interests				—	—
Balance, September 30, 2017	1,887	\$ — \$157,676	\$ 14,375	\$ 80	\$ 172,131
Balance, July 1, 2018	1,887	\$ — \$185,252	\$ 806	\$ 55	\$ 186,113
Net income attributable to the Company		10,634			10,634
Dividends paid (\$0.40 per share)		(755 )			(755 )
Repurchases of common stock	—	—			—
Exercise of stock appreciation rights	—	—			—
Share-based compensation expense related to stock appreciation rights		89			89
Cumulative effect adjustment for adoption of new accounting standards		—	—		—
Net unrealized loss on investments			(487 )		(487 )
Distribution of equity to noncontrolling interests				(52 )	(52 )
Net loss attributable to noncontrolling interests				(1 )	(1 )
Balance, September 30, 2018	1,887	\$ — \$195,220	\$ 319	\$ 2	\$ 195,541

## Consolidated Statements of Stockholders' Equity, continued

	Common Stock Shares	Retained Earnings Amount	Accumulated Other Comprehensive Income	Noncontrolling Interests	Total Stockholders' Equity
Balance, January 1, 2017	1,884	\$ —	\$ 11,761	\$ 91	\$ 155,136
Net income attributable to the Company		16,078			16,078
Dividends paid (\$0.95 per share)		(1,792 )			(1,792 )
Repurchases of common stock	—	(50 )			(50 )
Exercise of stock appreciation rights	3	(1 )			(1 )
Share-based compensation expense related to stock appreciation rights		157			157
Amortization related to postretirement health benefits			4		4
Net unrealized gain on investments			2,610		2,610
Net loss attributable to noncontrolling interests				(11 )	(11 )
Balance, September 30, 2017	1,887	\$ —	\$ 14,375	\$ 80	\$ 172,131
Balance, January 1, 2018	1,886	\$ —	\$ 15,945	\$ 85	\$ 177,921
Net income attributable to the Company		21,757			21,757
Dividends paid (\$1.20 per share)		(2,264 )			(2,264 )
Repurchases of common stock	—	(29 )			(29 )
Exercise of stock appreciation rights	1	(1 )			(1 )
Share-based compensation expense related to stock appreciation rights		239			239
Cumulative effect adjustment for adoption of new accounting standards		13,627	(13,627 )		—
Net unrealized loss on investments			(1,999 )		(1,999 )
Distribution of equity to noncontrolling interests				(52 )	(52 )
Net loss attributable to noncontrolling interests				(31 )	(31 )
Balance, September 30, 2018	1,887	\$ —	\$ 319	\$ 2	\$ 195,541

See notes to the Consolidated Financial Statements.

Investors Title Company and Subsidiaries  
Consolidated Statements of Cash Flows  
For the Nine Months Ended September 30, 2018 and 2017  
(in thousands)  
(unaudited)

	Nine Months Ended September 30,	
	2018	2017
<b>Operating Activities</b>		
Net income	\$21,726	\$16,067
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,234	1,055
Amortization of investments, net	617	573
Amortization related to postretirement benefits obligation	—	6
Amortization of other intangible assets, net	451	708
Share-based compensation expense related to stock appreciation rights	239	157
Net loss (gain) on disposals of property	12	(16 )
Net realized investment gains	(629 )	(990 )
Net unrealized gain on equity investments	(2,626 )	—
Net earnings from other investments	(1,471 )	(1,252 )
Provision for claims	155	2,715
Provision for deferred income taxes	3,134	1,923
Changes in assets and liabilities:		
Increase in premium and fees receivables	(2,557 )	(1,606 )
Increase in other assets	(69 )	(44 )
Increase in current income taxes receivable	(2,190 )	(1,641 )
(Decrease) increase in accounts payable and accrued liabilities	(128 )	5,254
Decrease in current income taxes payable	—	(1,232 )
Payments of claims, net of recoveries	(2,581 )	(2,813 )
Net cash provided by operating activities	15,317	18,864
<b>Investing Activities</b>		
Purchases of fixed maturity securities	—	(9,273 )
Purchases of equity securities	(2,484 )	(3,680 )
Purchases of short-term investments	(44,403 )	(15,668 )
Purchases of other investments	(730 )	(1,224 )
Purchase of subsidiary	—	(175 )
Proceeds from sales and maturities of fixed maturity securities	8,155	11,020
Proceeds from sales of equity securities	1,728	3,565
Proceeds from sales and maturities of short-term investments	40,697	1,536
Proceeds from sales and distributions of other investments	2,238	2,144
Proceeds from sales of other assets	3	13
Purchases of property	(1,580 )	(2,343 )
Proceeds from the sale of property	53	27
Net cash provided by (used in) investing activities	3,677	(14,058 )
<b>Financing Activities</b>		
Repurchases of common stock	(29 )	(50 )

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Exercise of stock appreciation rights	(1 )	(1 )
Distribution of equity for noncontrolling interest	(52 )	—
Dividends paid	(2,264 )	(1,792 )
Net cash used in financing activities	(2,346 )	(1,843 )
Net Increase in Cash and Cash Equivalents	16,648	2,963
Cash and Cash Equivalents, Beginning of Period	20,214	27,928
Cash and Cash Equivalents, End of Period	\$36,862	\$30,891

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Consolidated Statements of Cash Flows, continued

	Nine Months Ended September 30, 2018 2017	
Supplemental Disclosures:		
Cash Paid During the Year for:		
Income tax payments, net	\$5,477	\$9,236
Non Cash Investing and Financing Activities:		
Non cash net unrealized loss (gain) on investments, net of deferred tax benefit (provision) of \$537 and \$(1,354) for September 30, 2018 and 2017, respectively	\$1,999	\$(2,610)

See notes to the Consolidated Financial Statements.

INVESTORS TITLE COMPANY  
AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
September 30, 2018  
(unaudited)

Note 1 – Basis of Presentation and Significant Accounting Policies

Reference should be made to the “Notes to Consolidated Financial Statements” appearing in the Annual Report on Form 10-K for the year ended December 31, 2017 of Investors Title Company (the “Company”) for a complete description of the Company’s significant accounting policies.

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

In the opinion of management, all adjustments considered necessary for a fair presentation of the financial position, results of operations and cash flows of the Company in the accompanying unaudited Consolidated Financial Statements have been included. All such adjustments are of a normal recurring nature. Operating results for the quarter ended September 30, 2018 are not necessarily indicative of the financial condition and results that may be expected for the year ending December 31, 2018 or any other interim period.

Reclassifications – Certain prior year amounts have been reclassified for consistency with the current period presentation. The primary change was the presentation of revenue and operating expenses. Revenue other than title premiums are now presented in more detail than previously provided. Presentation of operating expenses has also been modified. These reclassifications had no effect on the reported results of operations.

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

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

Recently Adopted Accounting Standards

In February 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. ASU 2018-02 is intended to help organizations reclassify certain stranded income tax effects in accumulated other comprehensive income resulting from the Tax Cuts and Jobs Act (“TCJA”). Under the ASU, entities have the option to reclassify tax effects from the TCJA within other comprehensive

income to retained earnings in each period in which the effect of the change in the federal corporate tax rate under the TCJA is recorded. The update is effective for annual periods beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The Company adopted this update on January 1, 2018 by means of a \$3.1 million cumulative effect reclassification between retained earnings and accumulated other comprehensive income. The update had no material impact on the Company's financial position and results of operations.

In March 2017, the FASB issued ASU 2017-07, Compensation - Retirement Benefits (Topic 715). This update requires entities to (1) disaggregate the current service cost component from the other components of net benefit cost (the "other components") and present it with other current compensation costs for related employees in the income statement and (2) present the other components elsewhere in the income statement and outside of income from operations if that subtotal is presented. In addition, the ASU requires entities to disclose the income statement lines that contain the other components if they are not presented on appropriately described separate lines. The update was effective for annual periods beginning after December 15, 2017, and interim periods within those fiscal years. The Company adopted this update on January 1, 2018 with no material impact on the Company's financial position and results of operations.



In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-01 updated guidance to enhance the reporting model for financial instruments. Among the main principles of the guidance applicable to the Company are provisions to: (1) require equity investments, except those accounted for under the equity method of accounting or those that result in consolidation of the investee, to be measured at fair value with changes in fair value recognized in net income; (2) simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, noting that when a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair value; (3) eliminate the requirement to disclose methods and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost; (4) require entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (5) require separate presentation of financial assets and financial liabilities by measuring category and form of financial asset on the balance sheet or accompanying notes to the financial statements; and (6) clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. The update was effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company adopted this update on January 1, 2018 by means of a \$16.8 million cumulative effect reclassification of the net unrealized gain related to equity securities from accumulated other comprehensive income to retained earnings. The amendments relating to equity securities without readily determinable fair values were applied prospectively to equity investments that existed as of the date of adoption. As a result, the Company recognized a \$2.6 million net unrealized gain on equity investments in the Consolidated Statements of Income for the nine-month period ended September 30, 2018.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 updated guidance to improve the comparability of revenue recognition practices for entities that either enter into contracts with customers to transfer goods or services or enter into contracts for the transfer of nonfinancial assets, unless those contracts are within the scope of other standards such as insurance contracts or lease standards. As the ASU does not apply to the Company's core title insurance business, its potential effect is limited to the Company's other lines of business. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. For public entities, this update originally became effective for interim and annual reporting periods beginning after December 15, 2016. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date. ASU 2015-14 updated guidance to defer the effective date of the standard by one year. The Company adopted this update using the modified retrospective transition approach on January 1, 2018 with no impact on the Company's financial position and results of operations. Refer to Note 11 for further information regarding the Company's revenue from contracts with customers.

#### Recently Issued Accounting Standards

In March 2017, the FASB issued ASU 2017-08, Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. ASU 2017-08 is intended to enhance the accounting for the amortization of premiums for purchased callable debt securities. Specifically, the ASU shortens the amortization period for certain investments in callable debt securities purchased at a premium by requiring that the premium be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The update is effective for annual periods beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact that the recently issued accounting standard will have on the Company's financial position and results of operations, but does not expect it to have a material impact.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350). This update removes the requirement to compare the implied fair value of goodwill with its carrying amount as part of step 2 of the goodwill impairment test. As a result, under the ASU, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. In addition, the ASU clarifies that an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. The update is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. None of these amendments are expected to have a material impact on the Company's financial position or results of operations.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326). ASU 2016-13 is intended to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The update broadens the information that an entity must consider in developing its expected credit loss estimates, and is meant to better reflect an entity's current estimate of all expected credit losses. In addition, this update amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The update is effective for annual periods beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted as of fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the impact that the recently issued accounting standard will have on the Company's financial position and results of operations, but does not expect it to have a material impact. Currently, the Company's potential credit losses under this accounting standard relate to fixed maturity securities. The Company does not believe that the risk of credit losses, based on current fixed maturity holdings, is material to the Company's financial statements as a whole. Refer to Note 6 for further information about the Company's investments.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). ASU 2016-02 updated guidance to improve financial reporting for leasing transactions. The core principle of the guidance is that lessees will be required to recognize assets and liabilities on the balance sheet for all leases with terms of more than twelve months. A lessee would recognize a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term. The accounting applied by a lessor is largely unchanged from current GAAP, with some targeted improvements. Disclosures will be required by lessees and lessors to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. In transition, both lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The update is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption was permitted for all entities upon issuance. The Company is currently evaluating the impact that the recently issued accounting standard will have on the Company's financial position and results of operations, but does not expect it to have a material impact. As of December 31, 2017, future minimum lease payments with terms of more than twelve months were approximately \$3.6 million. In July 2018, the FASB issued ASU 2018-11, Leases (Topic 842): Targeted Improvements. The amendments in this update provide entities with an additional (and optional) transition method to adopt the new lease standard. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. In addition, the amendments in this update provide lessors with a practical expedient, by class of underlying asset, to not separate non-lease components from the associated lease component similar to the expedient provided to lessees. The Company is not planning to adopt the optional transition method under ASU 2018-11.

**Significant Accounting Policies –** The Company has updated the following accounting policies due to the adoption of ASU 2016-01.

**Investments in Fixed Maturity Securities –** Fixed maturity securities are classified as available-for-sale and reported at fair value with unrealized gains and losses, net of tax and adjusted for other-than-temporary declines in fair value, and reported as accumulated other comprehensive income. Securities are regularly 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. Some factors considered in evaluating whether or not a decline in fair value is other-than-temporary include the duration and extent to which the fair value has been less than cost and the Company's ability and intent to retain the investment for a period of time sufficient to allow for a recovery in value. 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. Realized gains and losses are determined on the specific identification method (refer to Note 6 for further information regarding the Company's investments).

Investments in Equity Securities – Equity securities represent ownership interests held by the Company in entities for investment purposes. Prior to January 1, 2018, these equity securities were classified as available-for-sale and were carried at fair value on the Company's Consolidated Balance Sheets. Unrealized holding gains and losses from changes in the fair values of available-for-sale equity securities were reported in accumulated other comprehensive income. Effective January 1, 2018, unrealized holding gains and losses are reported in the Consolidated Statements of Income as a net unrealized gain or loss on equity securities. As a result, other-than-temporary impairments will no longer be considered for equity securities. Realized investment gains and losses from sales are recorded on the trade date and are determined using the specific identification method (refer to Note 6 for further information regarding the Company's investments).

Other Investments – Other investments consist of investments in unconsolidated affiliated entities, typically structured as limited liability companies ("LLC's"), without readily determinable fair values. Other investments are accounted for under either the equity method or the measurement alternative method. The measurement alternative method is used when an investment does not qualify for the equity method or the practical expedient in Accounting Standards Codification ("ASC") Topic 820, which estimates fair value using the net asset value per share. Under the measurement alternative method, investments are recorded at cost, less any impairment and plus or minus any changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. The Company monitors any events or changes in circumstances that may have had a significant adverse effect on the fair value of these investments and makes any necessary adjustments.

## Note 2 – Reserve for Claims

Activity in the reserve for claims for the nine-month period ended September 30, 2018 and the year ended December 31, 2017 are summarized as follows:

(in thousands)	September 30, December 31,	
	2018	2017
Balance, beginning of period	\$ 34,801	\$ 35,305
Provision, charged to operations	155	3,311
Payments of claims, net of recoveries	(2,581	) (3,815
Balance, end of period	\$ 32,375	\$ 34,801

The total reserve for all reported and unreported losses the Company incurred through September 30, 2018 is represented by the reserve 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 total reserve is adequate to cover claim losses which might result from pending and future claims under title insurance policies issued through September 30, 2018. Management continually reviews and adjusts its reserve for claims estimates to reflect its loss experience and any new information that becomes available. Adjustments resulting from such reviews could be significant.

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

(in thousands, except percentages)	September 30,		December 31,	
	2018	%	2017	%
Known title claims	\$ 3,157	9.8	\$ 4,646	13.4
IBNR	29,218	90.2	30,155	86.6
Total reserve for claims	\$ 32,375	100.0	\$ 34,801	100.0

Claims and losses paid are charged to the reserve 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 and (b) the amount of compensation cost, if any, for future services that the Company has not yet recognized, are assumed to be used to repurchase shares in the current period.

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

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(in thousands, except per share amounts)	Three Months		Nine Months	
	Ended September 30, 2018	2017	Ended September 30, 2018	2017
Net income attributable to the Company	\$10,634	\$5,927	\$21,757	\$16,078
Weighted average common shares outstanding – Basic	1,887	1,887	1,886	1,886
Incremental shares outstanding assuming the exercise of dilutive SARs (share-settled)	10	9	10	10
Weighted average common shares outstanding – Diluted	1,897	1,896	1,896	1,896
Basic earnings per common share	\$5.64	\$3.14	\$11.53	\$8.52
Diluted earnings per common share	\$5.61	\$3.13	\$11.47	\$8.48

There were 9 thousand and 4 thousand potential shares excluded from the computation of diluted earnings per share for the three-and nine-month periods ended September 30, 2018, respectively. There were 4 thousand potential shares excluded from the computation of diluted earnings per share for the three-and nine-month periods ended September 30, 2017, respectively.

The Company historically has adopted employee stock award plans under which restricted stock, and options or stock appreciation rights ("SARs") exercisable for the Company's stock, may be granted to key employees or directors of the Company. There is currently one active plan from which the Company may grant share-based awards. The awards eligible to be granted under the active plan are limited to SARs, and the maximum aggregate number of shares of common stock of the Company available pursuant to the plan for the grant of SARs is 250 thousand shares.

As of September 30, 2018, the only outstanding awards under the plans were SARs, which expire in seven years from the date of grant, and all of which vest and are exercisable within one year of the date of grant. All SARs issued to date have been share-settled only. There have been no stock options or SARs granted where the exercise price was less than the market price on the date of grant.

There was approximately \$239 thousand and \$157 thousand of compensation expense relating to SARs vesting on or before September 30, 2018 and 2017, respectively, included in salaries, employee benefits and payroll taxes in the Consolidated Statements of Income. As of September 30, 2018, there was \$177 thousand of unrecognized compensation cost related to unvested share-based compensation arrangements granted under the Company's stock award plans.

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

(in thousands, except weighted average exercise price and average remaining contractual term)	Number Of Shares	Weighted Average Exercise Price	Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding as of January 1, 2017	25	\$ 65.85	3.85	\$ 837
SARs granted	4	192.71		
SARs exercised	(4 )	36.38		
Outstanding as of December 31, 2017	25	\$ 93.40	3.98	\$ 2,624
SARs granted	4	188.71		
SARs exercised	(1 )	41.50		
Outstanding as of September 30, 2018	28	\$ 110.27	3.90	\$ 1,848
Exercisable as of September 30, 2018	26	\$ 103.55	3.66	\$ 1,848
Unvested as of September 30, 2018	2	\$ 188.71	6.63	\$ —

During the second quarters of both 2018 and 2017, the Company issued 4 thousand 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 2018 and 2017 were \$78.61 and \$55.40, respectively, and were estimated using the weighted average

assumptions shown in the table below.

	2018	2017
Expected Life in Years	7.0	7.0
Volatility	39.0%	26.2%
Interest Rate	3.1%	2.0%
Yield Rate	0.8%	0.8%



## 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 September 30, 2018 and 2017:

Three Months Ended September 30, 2018 (in thousands)	Title Insurance	All Other	Intersegment Eliminations	Total
Insurance and other services revenues	\$42,891	\$2,120	\$ (1,825 )	\$43,186
Investment income	4,247	640	—	4,887
Net realized gain on investments	141	47	—	188
Total revenues	\$47,279	\$2,807	\$ (1,825 )	\$48,261
Operating expenses	35,359	2,033	(1,691 )	35,701
Income before income taxes	\$11,920	\$774	\$ (134 )	\$12,560
Total assets	\$212,181	\$54,395	\$ —	\$266,576
Three Months Ended September 30, 2017 (in thousands)	Title Insurance	All Other	Intersegment Eliminations	Total
Insurance and other services revenues	\$40,658	\$1,928	\$ (1,952 )	\$40,634
Investment income	1,503	194	—	1,697
Net realized gain on investments	749	55	—	804
Total revenues	\$42,910	\$2,177	\$ (1,952 )	\$43,135
Operating expenses	34,125	1,911	(1,818 )	34,218
Income before income taxes	\$8,785	\$266	\$ (134 )	\$8,917
Total assets	\$201,138	\$52,060	\$ —	\$253,198
Nine Months Ended September 30, 2018 (in thousands)	Title Insurance	All Other	Intersegment Eliminations	Total
Insurance and other services revenues	\$113,992	\$6,006	\$ (4,940 )	\$115,058
Investment income	6,986	1,300	—	8,286
Net realized gain on investments	548	81	—	629
Total revenues	\$121,526	\$7,387	\$ (4,940 )	\$123,973
Operating expenses	95,575	6,337	(4,538 )	97,374
Income before income taxes	\$25,951	\$1,050	\$ (402 )	\$26,599
Total assets	\$212,181	\$54,395	\$ —	\$266,576
Nine Months Ended September 30, 2017 (in thousands)	Title Insurance	All Other	Intersegment Eliminations	Total
Insurance and other services revenues	\$114,344	\$5,379	\$ (4,563 )	\$115,160
Investment income	4,380	523	—	4,903
Net realized gain on investments	893	97	—	990
Total revenues	\$119,617	\$5,999	\$ (4,563 )	\$121,053
Operating expenses	95,802	5,771	(4,234 )	97,339
Income before income taxes	\$23,815	\$228	\$ (329 )	\$23,714
Total assets	\$201,138	\$52,060	\$ —	\$253,198



## Note 5 – Retirement Agreements and Other Postretirement Benefits

The Company's subsidiary, Investors Title Insurance Company ("ITIC"), is a 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 \$10.9 million and \$9.5 million as of September 30, 2018 and December 31, 2017, respectively. The executive employee benefits include health, 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 benefit cost for the executive benefits for the periods ended September 30, 2018 and 2017:

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
(in thousands)				
Service cost – benefits earned during the year	\$ —	\$ —	\$ —	\$ —
Interest cost on the projected benefit obligation	8	9	24	28
Amortization of unrecognized losses	—	2	—	6
Net periodic benefit cost	\$ 8	\$ 11	\$ 24	\$ 34

## Note 6 – Investments and Estimated Fair Value

## Investments in Fixed Maturity Securities

The estimated fair value, gross unrealized holding gains, gross unrealized holding losses and amortized cost for fixed maturities by major classification are as follows:

As of September 30, 2018 (in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Fixed maturities, available-for-sale, at fair value:				
Government obligations	\$ 1,028	\$ —	\$ 14	\$ 1,014
General obligations of U.S. states, territories and political subdivisions	20,952	170	304	20,818
Special revenue issuer obligations of U.S. states, territories and political subdivisions	56,860	970	582	57,248
Corporate debt securities	12,496	329	78	12,747
Total	\$ 91,336	\$ 1,469	\$ 978	\$ 91,827
As of December 31, 2017 (in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Fixed maturities, available-for-sale, at fair value:				
Government obligations	\$ 1,043	\$ —	\$ 1	\$ 1,042
General obligations of U.S. states, territories and political subdivisions	24,189	505	50	24,644
Special revenue issuer obligations of U.S. states, territories and political subdivisions	62,592	2,218	165	64,645
Corporate debt securities	12,490	527	7	13,010
Total	\$ 100,314	\$ 3,250	\$ 223	\$ 103,341

The special revenue category for both periods presented includes approximately 60 individual fixed maturities with revenue sources from a variety of industry sectors.



The scheduled maturities of fixed maturity securities at September 30, 2018 were as follows:

(in thousands)	Available-for-Sale	
	Amortized Cost	Estimated Fair Value
Due in one year or less	\$10,708	\$10,677
Due one year through five years	35,318	35,920
Due five years through ten years	41,648	41,217
Due after ten years	3,662	4,013
Total	\$91,336	\$91,827

Expected maturities will differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without penalties.

The following table presents the gross unrealized losses on investment securities and the estimated fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous loss position at September 30, 2018 and December 31, 2017:

As of September 30, 2018 (in thousands)	Less than 12 Months		12 Months or Longer		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
Government obligations	\$1,014	\$ (14 )	\$—	\$ —	\$1,014	\$ (14 )
General obligations of U.S. states, territories and political subdivisions	9,152	(146 )	3,370	(158 )	12,522	(304 )
Special revenue issuer obligations of U.S. states, territories and political subdivisions	22,523	(290 )	6,019	(292 )	28,542	(582 )
Corporate debt securities	10,194	(78 )	—	—	10,194	(78 )
Total temporarily impaired securities	\$42,883	\$ (528 )	\$9,389	\$ (450 )	\$52,272	\$ (978 )
As of December 31, 2017 (in thousands)	Less than 12 Months		12 Months or Longer		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
Government obligations	\$1,042	\$ (1 )	\$—	\$ —	\$1,042	\$ (1 )
General obligations of U.S. states, territories and political subdivisions	4,560	(27 )	3,535	(23 )	8,095	(50 )
Special revenue issuer obligations of U.S. states, territories and political subdivisions	13,551	(61 )	4,023	(104 )	17,574	(165 )
Corporate debt securities	3,744	(7 )	—	—	3,744	(7 )
Total temporarily impaired securities	\$22,897	\$ (96 )	\$7,558	\$ (127 )	\$30,455	\$ (223 )

The decline in estimated fair value of the fixed maturity securities can be attributed primarily to changes in market interest rates and changes in credit spreads over Treasury securities. Because the Company does not have the intent to sell these securities and will likely not be compelled to sell them before it can recover its cost basis, the Company does not consider these investments to be other-than-temporarily impaired.

Factors considered in determining whether a loss is temporary include the length of time and extent to which fair value has been below cost, the financial condition and prospects of the issuer (including credit ratings and analyst

reports) and macro-economic changes. A total of 63 and 32 securities had unrealized losses at September 30, 2018 and December 31, 2017, respectively. Reviews of the values of securities 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 Company recorded no other-than-temporary impairment charges for fixed maturities for the nine-month periods ended September 30, 2018 and 2017. Other-than-temporary impairment charges are included in net realized investment gains in the Consolidated Statements of Income.

## Investments in Equity Securities

The cost and estimated fair value of equity securities are as follows:

As of September 30, 2018 (in thousands)	Cost	Estimated Fair Value		
Equity securities, at fair value:				
Common stocks	\$27,382	\$ 51,372		
Total	\$27,382	\$ 51,372		
As of December 31, 2017 (in thousands)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Equity securities, at fair value:				
Common stocks	\$26,003	\$ 21,376	\$ 12	\$ 47,367
Total	\$26,003	\$ 21,376	\$ 12	\$ 47,367

Effective January 1, 2018, unrealized holding gains and losses are reported in the Consolidated Statements of Income as net unrealized gain or loss on equity securities and other-than-temporary impairments will no longer be considered for equity securities. As such, unrealized holding gains and losses are excluded from the table above as of September 30, 2018. Reference the discussion under Recently Adopted Accounting Standards in Note 1. The Company did not record any other-than-temporary charges for equity securities for the nine-month period ended September 30, 2017.

## Realized Gains from the Sale of Investment Securities

Gross realized gains and losses on sales of investments for the nine-month periods ended September 30 are summarized as follows:

(in thousands)	2018	2017
Gross realized gains from securities:		
Special revenue issuer obligations of U.S. states, territories and political subdivisions	\$—	\$—
Corporate debt securities	—	—
Common stocks	688	1,232
Total	\$688	\$1,232
Gross realized losses from securities:		
General obligations of U.S. states, territories and political subdivisions	\$—	\$—
Special revenue issuer obligations of U.S. states, territories and political subdivisions	—	—
Common stocks	(63 )	(255 )
Other-than-temporary impairment of securities	—	—
Total	\$(63 )	\$(255 )
Net realized gains from securities	\$625	\$977
Net realized gains on other investments:		
Gains on other investments	\$4	\$13
Total	\$4	\$13
Net realized investment gains	\$629	\$990

Realized gains and losses are determined on the specific identification method.

## Variable Interest Entities

The Company holds investments in variable interest entities ("VIEs") that are not consolidated in the Company's financial statements as the Company is not the primary beneficiary. These entities are considered VIEs as the equity investors at risk, including the Company, do not have the power over the activities that most significantly impact the economic performance of the entities; this power resides with a third-party general partner or managing member that cannot be removed except for cause. The following table sets forth details about the Company's variable interest investments in VIEs, which are structured either as limited partnerships ("LPs") or limited liability companies ("LLCs"), as of September 30, 2018:

Type of Investment (in thousands)	Balance Sheet Classification	Carrying Value	Estimated Fair Value	Maximum Potential Loss (a)
Tax credit LPs	Other investments	\$ 629	\$ 629	\$ 1,325
Real estate LLCs or LPs	Other investments	4,854	5,563	7,950
Small business investment LPs	Other investments	4,320	4,267	9,400
Total		\$ 9,803	\$ 10,459	\$ 18,675

Maximum potential loss is calculated as the total investment in the LLC or LP, including any capital commitments (a) that may have not yet been called. The Company is not exposed to any loss beyond the total commitment of its investment.

## Valuation of Financial Assets

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

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

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

The Level 2 category includes fixed maturity investments such as corporate debt securities, U.S. government, and obligations of U.S. states, territories, and political subdivisions. Estimated fair value is principally based on market values obtained from a third-party pricing service. Factors that are used in determining estimated 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 ASC 820, Fair Value Measurements and Disclosures. Generally, quotes obtained from the pricing service for instruments classified as Level 2 are not adjusted and are not binding. As of September 30, 2018 and December 31, 2017, the Company did not adjust any Level 2 fair values.



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

In the measurement of the estimated 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.

Measurement alternative equity investments

The measurement alternative method requires investments without readily determinable fair values to be recorded at cost, less impairments plus or minus any changes resulting from observable price changes. The Company monitors any events or changes in circumstances that may have had a significant adverse effect on the fair value of these investments and makes any necessary adjustments.

Accrued interest and dividends

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

The following table presents, by level, fixed maturities carried at estimated fair value measured as of September 30, 2018 and December 31, 2017:

As of September 30, 2018 (in thousands)	Level 1	Level 2	Level 3	Total
Fixed maturities:				
Obligations of U.S. states, territories and political subdivisions*	\$ —	-\$79,080	\$ —	-\$79,080
Corporate debt securities*	—	12,747	—	12,747
Total	\$ —	-\$91,827	\$ —	-\$91,827
As of December 31, 2017 (in thousands)	Level 1	Level 2	Level 3	Total
Fixed maturities:				
Obligations of U.S. states, territories and political subdivisions*	\$ —	-\$90,331	\$ —	-\$90,331
Corporate debt securities*	—	13,010	—	13,010
Total	\$ —	-\$103,341	\$ —	-\$103,341

\*Denotes fair market value obtained from pricing services.

The estimated fair values of equity investments and other financial instruments as of September 30, 2018 and December 31, 2017 are presented in the following table:

As of September 30, 2018 (in thousands)	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash	\$36,862	\$ —	—	\$36,862
Accrued interest and dividends	1,242	—	—	1,242
Equity securities, at fair value:				
Common stocks	51,372	—	—	51,372
Short-term investments:				
Commercial paper and money market funds	27,693	—	—	27,693
Other investments:				

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Equity investments in unconsolidated affiliates, equity method	—	—	6,129	6,129
Equity investments in unconsolidated affiliates, measurement alternative	—	—	5,868	5,868
Total	\$117,169	\$	-\$11,997	\$129,166

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As of December 31, 2017 (in thousands)	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash	\$20,214	\$ —	—	\$20,214
Accrued interest and dividends	1,100	—	—	1,100
Equity securities, at fair value:				
Common stocks	47,367	—	—	47,367
Short-term investments:				
Commercial paper, money market funds and certificates of deposit	23,780	—	—	23,780
Other investments:				
Equity investments in unconsolidated affiliates, equity method	—	—	6,593	6,593
Equity investments in unconsolidated affiliates, measurement alternative	—	—	5,439	5,439
Total	\$92,461	\$ —	\$12,032	\$104,493

The Company did not hold any Level 3 category debt or marketable equity investment securities as of September 30, 2018 or December 31, 2017.

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

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

Certain equity investments under the measurement alternative are measured at estimated fair value on a non-recurring basis and are reviewed for impairment quarterly. If any such investment is determined to be other-than-temporarily impaired, an impairment charge is recorded against such investment and reflected in the Consolidated Statements of Income. There were no impairments of such investments made during the nine-month period ended September 30, 2018 or the twelve-month period ended December 31, 2017. The following table presents a rollforward of equity investments under the measurement alternative as of September 30, 2018 and December 31, 2017:

(in thousands)	Balance, January 1, 2018	Amount Impaired	Observable Changes	Purchases and Additional Commitment Paid	Sales, Returns of Capital and Other Reductions	Balance, September 30, 2018
Other investments:						
Equity investments in unconsolidated affiliates, measurement alternative	\$ 5,439	\$ —	—	\$ 672	\$ (243 )	\$ 5,868
Total	\$ 5,439	\$ —	—	\$ 672	\$ (243 )	\$ 5,868

(in thousands)	Balance, January 1, 2017	Amount Impaired	Observable Changes	Purchases and Additional Commitments Paid	Sales, Returns of Capital and Other Reductions	Balance, December 31, 2017
Other investments:						
Equity investments in unconsolidated affiliates, measurement alternative	\$ 4,744	\$ —		—\$ 1,082	\$ (387 )	\$ 5,439
Total	\$ 4,744	\$ —		—\$ 1,082	\$ (387 )	\$ 5,439

#### Note 7 – Commitments and Contingencies

**Legal Proceedings** – The Company and its subsidiaries are involved in 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 operations.

**Regulation** – The Company’s title insurance and trust subsidiaries are regulated by various federal, state and local governmental agencies and are subject to various audits, examinations, and inquiries. It is the opinion of management based on its present expectations that these audits, examinations, and inquiries will not have a material impact on the Company’s consolidated financial condition or results of operations.

**Escrow and Trust Deposits** – As a service to its customers, the Company, through ITIC, administers escrow and trust deposits representing earnest money received under real estate contracts, undisbursed amounts received for settlement of mortgage loans and indemnities against specific title risks. These amounts are not considered assets of the Company and, therefore, are excluded from the accompanying Consolidated Balance Sheets; however, the Company remains contingently liable for the disposition of these deposits.

**Like-Kind Exchanges Proceeds** – In administering tax-deferred property exchanges, the Company’s subsidiary, Investors Title Exchange Corporation (“ITEC”), serves as a qualified intermediary for exchanges, holding the net sales proceeds from relinquished property to be used for purchase of replacement property. Another Company subsidiary, Investors Title Accommodation Corporation (“ITAC”), serves as exchange accommodation titleholder and, through limited liability companies that are wholly owned subsidiaries of ITAC, holds property for exchangers in reverse exchange transactions. Like-kind exchange deposits and reverse exchange property totaled approximately \$185.9 million and \$185.0 million as of September 30, 2018 and December 31, 2017, respectively. These amounts are not considered assets of the Company and, therefore, are excluded from the accompanying Consolidated Balance Sheets; however, the Company remains contingently liable for transfers of property, disbursements of proceeds and the return on the proceeds at the agreed upon rate. Exchange services revenues include earnings on these deposits; therefore, investment income is shown as non-title services rather than investment income. These like-kind exchange funds are primarily invested in money market and other short-term investments.

#### Note 8 – Related Party Transactions

The Company does business with, and has investments in, unconsolidated limited liability companies that are primarily title insurance agencies. The Company utilizes the equity method to account for its investment in these limited liability companies. The following table sets forth the approximate values by year found within each financial statement classification:

Financial Statement Classification,	As of	As of
Consolidated Balance Sheets	September	December

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(in thousands)	30, 2018	31, 2017		
Other investments	\$ 6,129	\$ 6,594		
Premiums and fees receivable	\$ 233	\$ 720		
Financial Statement Classification, Consolidated Statements of Income (in thousands)			For the Three Months Ended September 30, 2018	For the Nine Months Ended September 30, 2017
Net premiums written			\$4,148	\$3,784
Non-title services and other investment income			\$10,967	\$11,259
Commissions to agents			\$724	\$642
			\$1,859	\$1,689
			\$2,662	\$2,501
			\$7,192	\$7,457

## Note 9 – Intangible Assets and Goodwill

## Intangible Assets

The fair values of intangible assets recognized as the result of title insurance agency acquisitions, all Level 3 inputs, are principally based on values obtained from an independent third-party valuation service. In accordance with ASC 350, Intangibles – Goodwill and Other, management determined that no events or changes in circumstances occurred during 2018 that would indicate the carrying amounts may not be recoverable, and therefore determined that no identifiable intangible assets were impaired during the nine-months ended September 30, 2018. Net identifiable intangible assets of \$154 thousand were impaired during 2017.

Identifiable intangible assets consist of the following as of September 30, 2018 and December 31, 2017:

(in thousands)	2018	2017
Referral relationships	\$6,416	\$6,416
Non-compete agreements	1,406	1,406
Tradename	560	560
Total	8,382	8,382
Accumulated amortization	(1,826 )	(1,375 )
Identifiable intangible assets, net	\$6,556	\$7,007

The following table provides the estimated aggregate amortization expense for each of the five succeeding fiscal years:

Year Ended (in thousands)	
2018	\$ 126
2019	569
2020	569
2021	562
2022	525
Thereafter	4,205
Total	\$6,556

## Goodwill and Title Plant

As of September 30, 2018, the Company recognized \$4.4 million in goodwill and \$690 thousand in a title plant, net of impairments, as the result of title insurance agency acquisitions. The title plant is included with other assets in the Consolidated Balance Sheets. The fair values of goodwill and the title plant, both Level 3 inputs, are principally based on values obtained from an independent third-party valuation service. In accordance with ASC 350, Intangibles – Goodwill and Other, management determined that no events or changes in circumstances occurred during 2018 that would indicate the carrying amounts may not be recoverable, and therefore determined that neither goodwill nor the title plant were impaired during the nine-months ended September 30, 2018. Goodwill of \$29 thousand was impaired during 2017.

## Note 10 – Accumulated Other Comprehensive Income

The following tables provide changes in the balances of each component of accumulated other comprehensive income, net of tax, for the periods ended September 30, 2018 and 2017:

	Unrealized Gains and Losses On Available-for-Sale Securities	Postretirement Benefits Plans	Total
<b>Three Months Ended September 30, 2018 (in thousands)</b>			
Beginning balance at July 1	\$ 875	\$ (69 )	\$ 806
Other comprehensive loss before reclassifications	(487 )	—	(487 )
Amounts reclassified from accumulated other comprehensive income	—	—	—
Net current-period other comprehensive loss	(487 )	—	(487 )
Ending balance	\$ 388	\$ (69 )	\$ 319
<b>Three Months Ended September 30, 2017 (in thousands)</b>			
Beginning balance at July 1	\$ 13,775	\$ (107 )	\$ 13,668
Other comprehensive gain before reclassifications	1,236	—	1,236
Amounts reclassified from accumulated other comprehensive income	(530 )	1	(529 )
Net current-period other comprehensive income	706	1	707
Ending balance	\$ 14,481	\$ (106 )	\$ 14,375
<b>Nine Months Ended September 30, 2018 (in thousands)</b>			
Beginning balance at January 1	\$ 16,003	\$ (58 )	\$ 15,945
Cumulative effect adjustment for adoption of new accounting standards	(13,616 )	(11 )	(13,627 )
Other comprehensive loss before reclassifications	(1,999 )	—	(1,999 )
Amounts reclassified from accumulated other comprehensive income	—	—	—
Net current-period other comprehensive loss	(1,999 )	—	(1,999 )
Ending balance	\$ 388	\$ (69 )	\$ 319
<b>Nine Months Ended September 30, 2017 (in thousands)</b>			
Beginning balance at January 1	\$ 11,871	\$ (110 )	\$ 11,761
Other comprehensive income before reclassifications	3,253	—	3,253
Amounts reclassified from accumulated other comprehensive income	(643 )	4	(639 )
Net current-period other comprehensive income	2,610	4	2,614
Ending balance	\$ 14,481	\$ (106 )	\$ 14,375



The following tables provide amounts reclassified out of each component of accumulated other comprehensive income for the periods ended September 30, 2018 and 2017:

Three Months Ended September 30, 2018 (in thousands)

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Consolidated Statements of Income
Unrealized gains and losses on available-for-sale securities:		
Net realized investment gains	\$ —	
Other-than-temporary impairments	—	
Total	\$ —	Net realized investment gains
Tax	—	Provision for Income Taxes
Net of Tax	\$ —	
Amortization related to postretirement benefit plans:		
Prior year service cost	\$ —	
Unrecognized loss	—	
Total	\$ —	(a)
Tax	—	Provision for Income Taxes
Net of Tax	\$ —	
Reclassifications for the period	\$ —	

Three Months Ended September 30, 2017 (in thousands)

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Consolidated Statements of Income
Unrealized gains and losses on available-for-sale securities:		
Net realized investment gains	\$ 804	
Other-than-temporary impairments	—	
Total	\$ 804	Net realized investment gains
Tax	(274 )	Provision for Income Taxes
Net of Tax	\$ 530	
Amortization related to postretirement benefit plans:		
Prior year service cost	\$ —	
Unrecognized loss	(2 )	
Total	\$ (2 )	(a)
Tax	1	Provision for Income Taxes
Net of Tax	\$ (1 )	
Reclassifications for the period	\$ 529	



Nine Months Ended September 30, 2018 (in thousands)

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Consolidated Statements of Income
Unrealized gains and losses on available-for-sale securities:		
Net realized investment gains	\$ —	
Other-than-temporary impairments	—	
Total	\$ —	Net realized investment gains
Tax	—	Provision for Income Taxes
Net of Tax	\$ —	
Amortization related to postretirement benefit plans:		
Prior year service cost	\$ —	
Unrecognized loss	—	
Total	\$ —	(a)
Tax	—	Provision for Income Taxes
Net of Tax	\$ —	
Reclassifications for the period	\$ —	

Nine Months Ended September 30, 2017 (in thousands)

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Consolidated Statements of Income
Unrealized gains and losses on available-for-sale securities:		
Net realized investment gains	\$ 977	
Other-than-temporary impairments	—	
Total	\$ 977	Net realized investment gains
Tax	(334)	) Provision for Income Taxes
Net of Tax	\$ 643	
Amortization related to postretirement benefit plans:		
Prior year service cost	\$ —	
Unrecognized loss	(6)	)
Total	\$ (6)	) (a)
Tax	2	) Provision for Income Taxes
Net of Tax	\$ (4)	)
Reclassifications for the period	\$ 639	

(a) These accumulated other comprehensive income components are not reclassified to net income in their entirety in the same reporting period. The amounts are presented within personnel costs on the Consolidated Statements of Income as amortized. Amortization and accretion related to postretirement benefit plans is included in the computation of net periodic pension costs, as discussed in Note 5.



## Note 11 – Revenue Recognition

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 updated guidance to improve the comparability of revenue recognition practices for entities that 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. The Company adopted this update on January 1, 2018 with no impact on the Company's financial position and results of operations.

The new revenue guidance does not apply to revenue associated with insurance contracts (including title insurance policies), financial instruments and lease contracts. The new revenue standard therefore is primarily applicable to the following Company revenue categories.

**Escrow and other title-related fees:** The Company's title segment recognizes commission revenue and fees related to items such as searches, settlements, commitments and other ancillary services. Escrow and other title-related fees are recognized as revenue at the time of the related transactions as the earnings process, or performance obligation, is then considered to be complete.

**Non-title services:** Through various subsidiaries, the Company offers management services, tax-deferred real property exchange services, investment management and trust services. Nonrefundable exchange fees are recognized as revenue upon receipt of the funds, which is at the time of closing of the initial sale of property. All other non-title service fees are recognized as revenue as performance obligations are completed.

**Other:** The Company occasionally recognizes revenue from other miscellaneous contracts which can include, but is not limited to seminar and education registration fees and software licensing contracts. These revenue streams are deemed immaterial to the operations of the Company, and revenue is recognized when, or as, performance obligations are completed.

The following table provides a breakdown of the Company's revenue by major business activity:

(in thousands)	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
Revenue from contracts with customers:		
Escrow and other title-related fees	\$ 1,812	\$ 5,465
Non-title services	1,795	5,083
Total revenue from contracts with customers	3,607	10,548
Other sources of revenue:		
Net premiums written	39,422	104,123
Investment related revenue	5,075	8,915
Other	157	387
Total Revenues	\$ 48,261	\$ 123,973

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The Company's Annual Report on Form 10-K for the year ended December 31, 2017 should be read in conjunction with the following discussion since it contains information which is important for evaluating the Company's operating results and financial condition. Forward-looking statements are based on certain assumptions and expectations of future events that are subject to a number of risks and uncertainties. Actual results may vary.

### 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 ("NITIC"). Total revenues from the title segment accounted for 94.7% of the Company's revenues for the nine-month period ended September 30, 2018. Through ITIC and NITIC, 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. 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 covered claim is made against real property, title insurance provides indemnification against insured defects.

There are two basic types of title insurance policies - one for the mortgage lender and one for the real property owner. A lender often requires the property owner to purchase a lender's title insurance policy 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 its investment.

The Company issues title insurance policies through its home and branch offices and through a network of agents. Issuing agents are typically real estate attorneys, independent agents 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 title insurance premiums written.

Revenues for the title insurance segment primarily 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.

Title insurance premiums vary from state to state and are subject to extensive regulation. Statutes generally provide that rates must not be excessive, inadequate or unfairly discriminatory. The process of implementing a rate change in most states involves pre-approval by the applicable state insurance regulator.

Volume is a factor in the Company's profitability due to fixed operating costs that are incurred by the Company regardless of title insurance premium volume. The resulting operating leverage tends 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, defaults and 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 property sales, mortgage financing and mortgage refinancing. Real estate activity, home sales and mortgage lending are cyclical in nature. Real estate activity is 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. Interest rate volatility is also an important factor in the level of residential and commercial real estate activity.

The Company's title insurance premiums in future periods are likely to fluctuate due to these and other factors which are beyond management's control.

Historically, the title insurance business tends to be seasonal as well as cyclical. Because home sales are typically strongest in periods of favorable weather, the first calendar quarter tends to have the lowest activity levels, while the spring and summer quarters tend to be more active. Refinance activity is generally less seasonal.

Services other than title insurance provided by operating divisions of the Company are not reported separately, but rather are reported collectively in a category called "All Other." These other services include those offered by the Company and by its wholly owned subsidiaries, Investors Title Exchange Corporation ("ITEC"), Investors Title Accommodation Corporation ("ITAC"), Investors Trust Company ("Investors Trust") and Investors Title Management Services, Inc. ("ITMS").

The Company's exchange services division, consisting of the operations of ITEC and ITAC, provides customer services in connection with tax-deferred real property exchanges. ITEC serves as a qualified intermediary in like-kind exchanges 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. An exchange accommodation offers a vehicle for accommodating a reverse exchange when the taxpayer must acquire replacement property before selling the relinquished property.

The Company's trust services division, Investors Trust, provides 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.

#### Business Trends and Recent Conditions

The housing market is heavily influenced by government policies and overall economic conditions. Regulatory reform and initiatives by various governmental agencies, including the Federal Reserve's monetary policy and other regulatory changes, could impact lending standards or the processes and procedures used by the Company. The current real estate environment, including interest rates and general economic activity, typically influence the demand for real estate. Changes in either of these areas would likely impact the Company's results of operations.

#### Regulatory Environment

In efforts to provide transparency, the Federal Open Market Committee ("FOMC") of the Federal Reserve issues disclosures on a periodic basis that include projections of the federal funds rate and expected actions. At the December 2015 meeting, the FOMC voted to raise the federal funds rate for the first time since December 2008 to a target range between 0.25% and 0.50%. Since December 2015, the FOMC has voted on several occasions to increase the federal funds rate, most recently at the September 2018 meeting to a target range between 2.00% and 2.25%. Any future adjustments to the rate are expected to be based on realized and expected economic developments to achieve maximum employment and 2.0% inflation. The FOMC anticipates future economic conditions to evolve in ways that will warrant increases and that, for some time, the federal funds rate is expected to be below long range levels. At the September 2017 meeting, the FOMC announced the reduction of securities held on the Federal Reserve's balance sheet, also known as normalization, which began in October 2017.

In 2008, the federal government took control of the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac") in an effort to keep these government-sponsored entities from failing. The primary functions of Fannie Mae and Freddie Mac are to provide liquidity to the nation's mortgage finance system by purchasing mortgages on the secondary market, pooling them and selling them as mortgage-backed securities. In order to securitize, Fannie Mae and Freddie Mac typically require the purchase of title insurance for loans they acquire. Since the federal takeover, there have been various discussions and proposals regarding their reform. Changes to these entities could impact the entire mortgage loan process and, as a result, could affect the demand for title insurance. The timing and results of reform are currently unknown; however, any changes to these entities could affect the Company and its results of operations.

In recent years, the Consumer Financial Protection Bureau ("CFPB"), Office of the Comptroller of Currency and the Federal Reserve have issued memorandums to banks reflecting a heightened focus on vetting third party providers. Such increased regulatory involvement may affect the Company's agents and approved providers. Further proposals to change regulations governing insurance holding companies and the title insurance industry are often introduced in Congress, in state legislatures and before various insurance regulatory agencies. Although the Company regularly



monitors such proposals, the likelihood and timing of passage of any such regulation, and the possible effects of any such regulation on the Company and its subsidiaries, cannot be determined at this time.

In recent periods, both the President and certain members of Congress have indicated a desire for reform of the CFPB. The timing and nature of any reforms are currently unknown; however, any changes to the CFPB could affect the Company and its results of operations.

On December 22, 2017, the Tax Cuts and Jobs Act (“TCJA”) was enacted into law, reducing the federal corporate income tax rate from 35% to 21%, effective January 1, 2018. As required under generally accepted accounting principles, the Company’s deferred tax assets and liabilities were revalued at the new tax rate, and the impact was recognized in the provision for income taxes in the fourth quarter of 2017. The revaluation resulted in a tax benefit of approximately \$5.3 million, or \$2.82 per diluted share, for the year ended December 31, 2017.

## Real Estate Environment

The MBA October 16, 2018 Mortgage Finance Forecast (“MBA Forecast”) projects 2018 purchase activity to increase 3.7% to \$1,185 billion and refinance activity to decrease 26.8% to \$451 billion, resulting in a decrease in total mortgage originations of 7.0% to \$1,636 billion, all from 2017 levels. In 2017, purchase activity accounted for 64.9% of all mortgage originations and is projected in the MBA Forecast to represent 72.4% of all mortgage originations in 2018.

Overall, the economy is expanding and both the job market and wages continue to grow. The Mortgage Bankers Association’s (“MBA”) October 2018 Economic and Mortgage Finance Commentary (“MBA Commentary”) predicts that the unemployment rate will continue to decrease, reaching 3.5% by the end of 2019. However, the performance of the housing market has not kept pace with the strength of the broader economy, with home sales being held back by a lack of inventory and worsening affordability due to rising prices and increasing mortgage interest rates. The MBA Commentary anticipates 30-year mortgage interest rates to rise only modestly from here, averaging 5.1% for 2019 through 2021.

According to data published by Freddie Mac, the average 30-year fixed mortgage interest rates in the United States were 4.5% and 4.0% for the nine-month periods ended September 30, 2018 and 2017, respectively. Per the MBA Forecast, refinancing activity is expected to be lower in 2018 as mortgage interest rates continue to climb to a projected 4.9% in the fourth quarter of 2018.

Historically, activity in real estate markets has varied over the course of market cycles by geographic region and in response to evolving economic factors. 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

The preparation of the Company’s Consolidated Financial Statements requires management to make estimates and judgments that affect the reported amounts of certain assets, liabilities, revenues, expenses and related disclosures regarding contingencies and commitments. Actual results could differ from these estimates. During the nine-month period ended September 30, 2018, the Company made the following changes to its critical accounting policies as previously disclosed in Management’s Discussion and Analysis in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017 as filed with the Securities and Exchange Commission.

The Company has updated the following accounting policies due to the adoption of Accounting Standards Update 2016-01.

**Investments in Fixed Maturity Securities –** Fixed maturity securities are classified as available-for-sale and reported at fair value with unrealized gains and losses, net of tax and adjusted for other-than-temporary declines in fair value, and reported as accumulated other comprehensive income. Securities are regularly 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. Some factors considered in evaluating whether or not a decline in fair value is other-than-temporary include the duration and extent to which the fair value has been less than cost and the Company’s ability and intent to retain the investment for a period of time sufficient to allow for a recovery in value. 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. Realized gains and losses are determined on the specific identification method (refer to Note 6 to the Notes to Consolidated Financial Statements herein).

Investments in Equity Securities – Equity securities represent ownership interests held by the Company in entities for investment purposes. Prior to January 1, 2018, these equity securities were classified as available-for-sale and were carried at fair value on the Company’s Consolidated Balance Sheets. Unrealized holding gains and losses from changes in the fair values of available-for-sale equity securities were reported in accumulated other comprehensive income. Effective January 1, 2018, unrealized holding gains and losses are reported in the Consolidated Statements of Income as a net unrealized gain or loss on equity securities. As a result, other-than-temporary impairments will no longer be considered for equity securities. Realized investment gains and losses from sales are recorded on the trade date and are determined using the specific identification method (refer to Note 6 to the Notes to Consolidated Financial Statements herein).

Other Investments – Other investments consist of investments in unconsolidated affiliated entities, typically structured as limited liability companies ("LLC's"), without readily determinable fair values. Other investments are accounted for under either the equity method or the measurement alternative method. The measurement alternative method is used when an investment does not qualify for the equity method or the practical expedient in Accounting Standards Codification Topic 820, which estimates fair value using the net asset value per share. Under the measurement alternative method, investments are recorded at cost, less any impairment and plus or minus any changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. The Company monitors any events or changes in circumstances that may have had a significant adverse effect on the fair value of these investments and makes any necessary adjustments.

## Results of Operations

The following table presents certain income statement data for the three- and nine-month periods ended September 30, 2018 and 2017:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
<b>Revenues:</b>				
Net premiums written	\$39,422	\$37,428	\$104,123	\$104,838
Escrow and other title-related fees	1,812	1,470	5,465	5,427
Non-title services	1,795	1,620	5,083	4,498
Interest and dividends	1,138	1,087	3,381	3,298
Other investment income	829	610	2,279	1,605
Net realized investment gains	188	804	629	990
Net unrealized gain on equity investments	2,920	—	2,626	—
Other	157	116	387	397
<b>Total Revenues</b>	<b>48,261</b>	<b>43,135</b>	<b>123,973</b>	<b>121,053</b>
<b>Operating Expenses:</b>				
Commissions to agents	18,490	17,641	48,942	50,570
Provision for claims	997	1,855	155	2,715
Personnel expenses	11,096	10,082	33,234	29,982
Office and technology expenses	2,208	2,062	6,603	5,985
Other expenses	2,910	2,578	8,440	8,087
<b>Total Operating Expenses</b>	<b>35,701</b>	<b>34,218</b>	<b>97,374</b>	<b>97,339</b>
<b>Income before Income Taxes</b>	<b>12,560</b>	<b>8,917</b>	<b>26,599</b>	<b>23,714</b>
<b>Provision for Income Taxes</b>	<b>1,927</b>	<b>2,990</b>	<b>4,873</b>	<b>7,647</b>
<b>Net Income Attributable to the Company</b>	<b>\$10,634</b>	<b>\$5,927</b>	<b>\$21,757</b>	<b>\$16,078</b>

## Insurance Revenues

Insurance revenues include net premiums written and other title-related income that includes escrow and settlement fees. Non-title services, investment and other income are discussed separately below.

## Net Premiums Written

Title insurance companies typically issue title insurance policies directly through home and branch offices or through title agencies. Following is a breakdown of net premiums generated by home and branch offices and agency operations for the three- and nine-month periods ended September 30, 2018 and 2017:

	Three Months Ended				Nine Months Ended September			
	September 30,		September 30,		2018		2017	
(in thousands, except percentages)	2018	%	2017	%	2018	%	2017	%
Home and Branch	\$11,905	30.2	\$11,227	30.0	\$31,258	30.0	\$30,904	29.5
Agency	27,517	69.8	26,201	70.0	72,865	70.0	73,934	70.5
Total	\$39,422	100.0	\$37,428	100.0	\$104,123	100.0	\$104,838	100.0

Home and Branch Office Net Premiums: In the Company's home and branch operations, the Company issues a title insurance policy and retains the entire premium, as no commissions are paid in connection with these policies. Net premiums written from home and branch operations increased 6.0% and 1.1% for the three- and nine-month periods ended September 30, 2018, respectively, compared with the same prior year periods. The increases for the three- and nine-month periods ended September 30, 2018 were primarily attributable to higher real estate values, as well as a shift to higher-premium purchase activity, which offset the decline in refinance activity that has occurred over the past year.

All of the Company's home office operations and the majority of its branch offices are located in North Carolina; as a result, the home and branch office net premiums written are primarily for North Carolina title insurance policies.

Agency Net Premiums: When a policy is written through a title agency, the premium is shared between the agency and the underwriter. Total premiums include an estimate of premiums for policies that have been issued by agents, but not reported to the Company as of the balance sheet date. To determine the estimated premiums, the Company uses historical experience, as well as other factors, to make certain assumptions about the average elapsed time between the policy effective date and the date the policies are reported. From time to time, the Company adjusts the inputs to the estimation process as agents report transactions and new information becomes available. In addition to estimating revenues, the Company also estimates and accrues agent commissions, claims provision, premium taxes, income taxes, and other expenses associated with the estimated revenues that have been accrued. The Company reflects any adjustments to the accruals in the results of operations in the period in which new information becomes available.

Agency net premiums written increased 5.0% and decreased 1.4% for the three- and nine-month periods ended September 30, 2018, respectively, compared with the same prior year periods. The increase for the three-month period ended September 30, 2018 was primarily attributable to higher real estate values, as well as a shift to higher-premium purchase activity and the addition of new agencies over the past year, which offset the decline in refinance activity that has occurred over the past year. The decrease for the nine-month period ended September 30, 2018 was primarily attributable to lower levels of refinance activity following recent increases in mortgage interest rates. The volume decreases were partially offset by a continuation of increases in real estate values in our core markets.

Following is a schedule of net premiums written for the three- and nine-month periods ended September 30, 2018 and 2017 in select states in which the Company's two insurance subsidiaries, ITIC and NITIC, currently underwrite title insurance:

State (in thousands)	Three Months Ended September, 30		Nine Months Ended September 30,	
	2018	2017	2018	2017
North Carolina	\$16,335	\$14,448	\$42,533	\$39,978
Texas	7,048	7,295	18,762	20,154
South Carolina	3,785	3,799	10,770	10,636
Georgia	4,286	3,593	10,326	9,433
Virginia	1,457	1,677	4,347	4,677
All Others	6,589	6,693	17,633	20,151
Premiums	39,500	37,505	104,371	105,029
Reinsurance Assumed	2	—	4	3
Reinsurance Ceded	(80 )	(77 )	(252 )	(194 )
Net Premiums Written	\$39,422	\$37,428	\$104,123	\$104,838

The Company continues to monitor the impacts of Hurricanes Florence and Michael on real estate activity within the Company's operating territories, but does not currently expect a material impact on the Company's financial position or results of operations over the long term.

#### Escrow and Other Title-Related Fees

Escrow and other title-related fees consists primarily of commission income, escrow and other various fees associated with the issuance of a title insurance policy including settlement, examination and closing fees. Escrow and other title-related fee revenues were \$1.8 million and \$5.5 million for the three- and nine-month periods ended September 30, 2018, respectively, compared with \$1.5 million and \$5.4 million for the same prior year periods. Escrow and other title-related fees typically trend in conjunction with premiums written.

#### Revenue from Non-Title Services

Revenue from non-title services includes trust services, agency management services and exchange services income. Non-title services revenues were \$1.8 million and \$5.1 million for the three- and nine-month periods ended September 30, 2018, respectively, compared with \$1.6 million and \$4.5 million for the same prior year periods. The increases for the three- and nine-month periods ended September 30, 2018 primarily related to increases in revenue from all major components of non-title services.

#### Investment Related Revenues

#### Interest and Dividends

The Company derives a substantial portion of its income from investments in municipal and corporate fixed maturity securities 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. The Company's investment policy is designed to comply with regulatory requirements and to balance the competing objectives of asset quality and investment returns.

The Company's investment strategy emphasizes after-tax income and principal preservation. The Company's investments are primarily in fixed maturity securities and, to a lesser extent, equity securities. The average effective maturity of a majority of the fixed maturity securities is less than 10 years. The Company's invested assets are managed to fund its obligations and evaluated to ensure long term stability of capital accounts.

As the Company generates cash from operations, it is invested in accordance with the Company's investment policy and corporate goals. The Company's investment policy has been designed to balance multiple goals, including the assurance of a stable source of income from interest and dividends, the preservation of principal, and the provision of liquidity sufficient to meet insurance underwriting and other obligations as they become payable in the future. Securities purchased may include a combination of taxable or tax-exempt fixed maturities and equity securities. The Company also invests in short-term investments that include commercial paper, money-market funds and certificates of deposit. 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.

Interest and dividends remained virtually unchanged at \$1.1 million for the three-month periods ended September 30, 2018 and 2017 and \$3.4 million and \$3.3 million for the nine-month periods ended September 30, 2018 and 2017, respectively.

#### Other Investment Income

Other investment income consists primarily of income related to investments in unconsolidated affiliates, typically structured as limited liability companies ("LLC's"), accounted for under either the equity method of accounting or the measurement alternative for investments that do not have readily determinable fair values. The measurement alternative method requires investments without readily determinable fair values to be recorded at cost, less impairments, and plus or minus any changes resulting from observable price changes. The Company monitors any events or changes in circumstances that may have had a significant adverse effect on the fair value of these investments and makes any necessary adjustments.

Other investment income was \$829 thousand and \$2.3 million for the three- and nine-month periods ended September 30, 2018, respectively, compared with \$610 thousand and \$1.6 million for the same prior year periods.

#### Net Realized Investment Gains

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 amounts 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, the net realized investment gain or loss can vary significantly from period to period.

The net realized investment gains were \$188 thousand and \$629 thousand for the three- and nine-month periods ended September 30, 2018, respectively, compared with \$804 thousand and \$990 thousand for the same prior year period. The net realized investment gains for the three- and nine-month periods ended September 30, 2018 and 2017 did not include any impairment charges. Management believes unrealized losses on remaining fixed maturity securities at September 30, 2018 are temporary in nature.

The securities in the Company's investment portfolio are subject to economic conditions and market risks. The Company considers relevant facts and circumstances in evaluating whether a credit or interest-related impairment of a fixed maturity 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 sell the fixed maturity security; and the risk that management is making decisions



based on misstated information in the financial statements provided by issuers.

#### Net Unrealized Gain on Equity Investments

The Company adopted Accounting Standards Update 2016-01, Financial Instruments, on January 1, 2018. Among other provisions, the update requires all changes in the estimated fair value of equity securities to be recognized in the Consolidated Statement of Income as a net unrealized gain or loss, without regard as to whether a decline in value is deemed to be temporary or other-than-temporary. The Company's net income may in turn experience more variation as changes in fair value will more immediately affect the Consolidated Statement of Income.

The net unrealized gains on equity securities were \$2.9 million and \$2.6 million for the three- and nine-month periods ended September 30, 2018, respectively. Such gains were driven by changes in general market conditions. Financial indexes saw significant gains during the three-month period ended September 30, 2018.

## Other Revenues

Other revenues primarily include state tax credit income, gains and losses on the disposal of fixed assets and miscellaneous revenues. Other revenues were \$157 thousand and \$387 thousand for the three- and nine-month periods ended September 30, 2018, respectively, compared with \$116 thousand and \$397 thousand for the same prior year periods.

## Expenses

The Company's operating expenses consist primarily of commissions to agents, personnel expenses, office and technology expenses and the provision for claims. Operating expenses increased 4.3% for the three-month period ended September 30, 2018, compared with the same prior year period. The increase for the three-month period ended September 30, 2018 was primarily due to an increase in personnel expenses and commissions expense, partially offset by a decline in the provision for claims. Operating expenses for the nine-month period ended September 30, 2018 remained unchanged compared with the same prior year period.

Following is a summary of the Company's operating expenses for the three- and nine-month periods ended September 30, 2018 and 2017. Inter-segment eliminations have been netted; therefore, the individual segment amounts will not agree to Note 4 in the accompanying Consolidated Financial Statements.

	Three Months Ended				Nine Months Ended			
	September 30,		September 30,		September 30,		September 30,	
(in thousands, except percentages)	2018	%	2017	%	2018	%	2017	%
Title Insurance	\$33,697	94.4	\$32,330	94.5	\$91,116	93.6	\$91,637	94.1
All Other	2,004	5.6	1,888	5.5	6,258	6.4	5,702	5.9
Total	\$35,701	100.0	\$34,218	100.0	\$97,374	100.0	\$97,339	100.0

On a combined basis, after-tax profit margins were 22.0% and 17.5% for the three- and nine-month periods ended September 30, 2018, respectively, compared with 13.7% and 13.3% for the same prior year periods. The Company continually strives to enhance its competitive strengths and market position, including ongoing initiatives to reduce its operating expenses.

### Total Company

**Personnel Expenses:** Personnel expenses include base salaries, benefits and payroll taxes, bonuses paid to employees and contract labor expenses. Personnel expenses were \$11.1 million and \$33.2 million for the three- and nine-month periods ended September 30, 2018, respectively, compared with \$10.1 million and \$30.0 million for the same prior year periods. On a consolidated basis, personnel expenses as a percentage of total revenues were 23.0% and 26.8% for the three- and nine-month periods ended September 30, 2018, respectively, compared with 23.4% and 24.8% for the same prior year periods. The increases in personnel expenses for the three- and nine-month periods ended September 30, 2018 were primarily the result of higher staffing levels related to the support of growth, increases in contract services associated with the Company's ongoing software initiatives, normal inflationary increases on salaries and benefits, and an increase in the accrual for incentive compensation.

**Office and Technology Expenses:** Office and technology expenses primarily include facilities expenses, software and hardware expenses, depreciation expenses, telecommunications expenses, and business insurance. Office and technology expenses were \$2.2 million and \$6.6 million for the three- and nine-month periods ended September 30, 2018, respectively, compared with \$2.1 million and \$6.0 million for the same prior year periods. The increase in office and technology expenses in 2018 primarily related to increases in software, hardware and facilities expenses.

Other Expenses: Other expenses primarily include business development expenses, premium-related taxes and licensing, professional services, title and service fees, amortization of intangible assets and other general expenses. Other expenses were \$2.9 million and \$8.4 million for the three- and nine-month periods ended September 30, 2018, respectively, compared with \$2.6 million and \$8.1 million for the same prior year periods. In 2018, there were marginal increases in several miscellaneous expense categories, partially offset by decline in the amortization of intangible assets.

#### Title Insurance

Commissions: Agent commissions represent the portion of premiums retained by agents pursuant to the terms of their respective agency contracts. Commissions to agents increased 4.8% and decreased 3.2% for the three- and nine-month periods ended September 30, 2018, respectively, compared with the same prior year periods. Commission expense as a percentage of net premiums written by agents was 67.2% for both the three- and nine-month periods ended September 30, 2018, compared with 67.3% and 68.4% for the same prior year periods. Commission expense for the three- and nine-month periods ended September 30, 2018 moved commensurate with agent net premiums written. Commissions expense as a percentage of net premiums written decreased primarily due to changes in geographic mix and an increase in the level of intercompany commissions as a percentage of total premiums, with intercompany commissions being eliminated for affiliated agents upon consolidation. Commission rates vary by market due to local practice, competition and state regulations.

Provision for Claims: The provision for claims as a percentage of net premiums written was 2.5% and 0.1% for the three- and nine-month periods ended September 30, 2018, respectively, compared with 5.0% and 2.6% for the same prior year period. The decreases in the provision for claims for the three- and nine-month periods ended September 30, 2018, compared with the same prior year periods, primarily relate to the current year impact of favorable claims experience and reductions to estimated amounts incurred related to claims previously considered to be large losses.

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. Actual payments of claims, net of recoveries, were \$2.6 million and \$2.8 million for the nine-month periods ended September 30, 2018 and 2017, respectively.

At September 30, 2018, the total reserve for claims was \$32.4 million. Of that total, approximately \$3.2 million was reserved for specific claims, and approximately \$29.2 million 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 claims may not materialize for several years, reserve estimates are subject to variability.

Changes from prior periods in the expected liability for claims reflect the uncertainty of the claims environment, as well as the limited predictive power of historical data. The Company continually updates and refines its reserve estimates as current experience develops and credible data emerges. Such data includes payments on claims closed during the quarter, new details that emerge on open cases that cause claims adjusters to increase or decrease the case reserves, and the impact that these types of changes have on the Company's total loss provision. Adjustments may be required as new information develops which often varies from past experience.

#### Income Taxes

The provision for income taxes was \$1.9 million and \$4.9 million for the three- and nine-month periods ended September 30, 2018, compared with \$3.0 million and \$7.6 million for the same prior year period. Income tax expense, including federal and state taxes, as a percentage of income before income taxes was 15.3% and 18.3% for the three- and nine-month periods ended September 30, 2018, respectively, compared with 33.5% and 32.2% for the same prior year period. On December 22, 2017, the Tax Cuts and Jobs Act was enacted into law, reducing the federal corporate income tax rate from 35% to 21% effective January 1, 2018. The effective income tax rates for both 2018 and 2017 differ from the U.S. federal statutory income tax rates of 21% for 2018 and 35% for 2017, primarily due to the effect of tax-exempt income and prior year tax settlement adjustments. Tax-exempt income lowers the 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 September 30, 2018 will be realized. However, this judgment could be impacted by further market fluctuations.

### Liquidity and Capital Resources

The Company's current cash requirements include: general operating expenses, including the payment of title claims; income taxes; capital expenditures; dividends on its common stock; and repurchases of its common stock. Cash flows from operations have historically been the primary source of financing for expanding operations, whether through organic growth or outside investments.

The Company evaluates nonorganic growth opportunities, such as mergers and acquisitions, from time to time in the ordinary course of business. Because of the episodic nature of these events, related incremental liquidity and capital resource needs can be difficult to predict.

The Company's operating results and cash flows are heavily dependent on the real estate market. The Company's business has certain fixed costs such as personnel; therefore, changes in the real estate market are monitored closely, and operating expenses such as staffing levels are managed and adjusted accordingly. The Company believes that its significant working capital position and management of operating expenses will aid its ability to manage cash resources through fluctuations in the real estate market.

Cash Flows: Net cash flows provided by operating activities were \$15.3 million and \$18.9 million for the nine-month periods ended September 30, 2018 and 2017, respectively. Cash flows from operating activities decreased in 2018 from 2017, primarily due to the timing of disbursements and a lower provision for claims, partially offset by an increase in net income.

Cash flows from non-operating activities have historically consisted of purchases and proceeds from investing activities, repurchases of common stock and the payment of dividends. In 2018, proceeds received from investments outpaced the increase in purchase activity, compared with the prior year period.

The Company maintains a high degree of liquidity within its investment portfolio in the form of cash, short-term investments and other readily marketable securities. As of September 30, 2018, the Company held cash and cash equivalents of \$36.9 million, short-term investments of \$27.7 million, available-for-sale fixed maturity securities of \$91.8 million and equity securities of \$51.4 million. The net effect of all activities on total cash and cash equivalents was an increase of \$16.6 million in 2018.

Capital Resources: The amount of capital resources the Company maintains is influenced by state regulation, the need to maintain superior financial ratings from third-party rating agencies and other marketing and operational considerations.

The Company's significant sources of funds are dividends and distributions from its subsidiaries, primarily its two title insurance subsidiaries. Cash is received from its subsidiaries in the form of dividends and as reimbursements for operating and other administrative expenses that it incurs. The reimbursements are executed within the guidelines of management agreements between the Company and its subsidiaries.

The ability of the Company's title insurance subsidiaries to pay dividends to the Company is subject to state regulation from their respective states of domicile. Each state regulates the extent to which title underwriters can pay dividends or make distributions and requires prior regulatory approval of the payment of dividends and other intercompany transfers. The maximum dividend permitted by law is not necessarily indicative of an insurer's actual ability to pay dividends. Depending on regulatory conditions, the Company may in the future need to retain cash in its title insurance subsidiaries in order to maintain their statutory capital position. As of September 30, 2018, both ITIC and NITIC met the minimum capital, surplus and reserve requirements for each state in which they are licensed.

While state regulations and the need to cover risks may set a minimum level for capital requirements, other factors necessitate maintaining capital resources in excess of the required minimum amounts. For instance, the Company's capital resources help it maintain high ratings from insurance company rating agencies. Superior ratings strengthen the Company's ability to compete with larger, well known title insurers with national footprints.

A strong financial position provides necessary flexibility to fund potential acquisition activity, to invest in the Company's core business, and to minimize the financial impact of potential adverse developments. Adverse developments that generally require additional capital include adverse financial results, changes in statutory accounting requirements by regulators, reserve charges, investment losses or costs incurred to adapt to a changing regulatory environment, including costs related to CFPB regulation of the real estate industry.

The Company bases its capitalization levels, in part, on net coverage retained. Since the Company's geographical focus has been and continues to be concentrated in states with average premium rates typically lower than the national

average, capitalization relative to premiums will usually appear higher than industry averages.

Due to the Company's historical ability to consistently 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, real estate activity, the Company's claims-paying ability and its financial strength ratings. In addition to operational and investment considerations, taking advantage of opportunistic external growth opportunities may necessitate obtaining additional capital resources. 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.

**Purchase of Company Stock:** On November 9, 2015, the Board of Directors of the Company approved the purchase of an additional 163,335 shares pursuant to the Company's repurchase 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. Pursuant to the Company's ongoing purchase program, the Company purchased no shares for the three-month period ended September 30, 2018 and 230 shares at an price per share of \$176.60 for the three-month period ended September 30, 2017. The Company anticipates making further purchases under this plan from time to time in the future, depending on such factors as the prevailing market price of the Company's common stock, the Company's available cash and then existing alternative uses for such cash.

**Capital Expenditures:** Capital Expenditures were approximately \$1.6 million for the nine-month period ended September 30, 2018. In 2018, the Company has plans for various capital improvement projects, including increased investment in a number of technology and system development initiatives and hardware purchases which are anticipated to be funded via cash flows from operations. All material anticipated capital expenditures are subject to periodic review and revision and may vary depending on a number of factors.

#### Off-Balance Sheet Arrangements

As a service to its customers, the Company, through ITIC, administers escrow and trust deposits representing earnest money received under real estate contracts, undisbursed amounts received for settlement of mortgage loans and indemnities against specific title risks. These amounts are not considered assets of the Company and, therefore, are excluded from the accompanying Consolidated Balance Sheets. However, the Company remains contingently liable for the disposition of these deposits.

In addition, in administering tax-deferred property exchanges, ITEC serves as a qualified intermediary for exchanges, holding the net sales proceeds from relinquished property to be used for purchase of replacement property. ITAC serves as exchange accommodation titleholder and, through limited liability companies that are wholly owned subsidiaries of ITAC, holds property for exchangers in reverse exchange transactions. Like-kind exchange deposits and reverse exchange property held by the Company for the purpose of completing such transactions totaled approximately \$185.9 million and \$185.0 million as of September 30, 2018 and December 31, 2017, respectively. These exchange deposits are held at third-party financial institutions. These amounts are not considered assets of the Company for accounting purposes and, therefore, are excluded from the accompanying Consolidated Balance Sheets. Exchange services revenue includes earnings on these deposits; therefore, investment income is shown as exchange services revenue, rather than investment income. The Company remains contingently liable to customers for the transfers of property, disbursements of proceeds, and the return on the proceeds at the agreed upon rate.

External assets under management of Investors Trust Company are not considered assets of the Company and, therefore, are excluded from the accompanying Consolidated Balance Sheets.

It is not the general practice of the Company to enter into off-balance sheet arrangements or issue guarantees to third parties. The Company does not have any material source of liquidity or financing that involves off-balance sheet arrangements. Other than items noted above, off-balance sheet arrangements are generally limited to the future payments under noncancelable operating leases and payments due under various agreements with third-party service providers.

#### Recent Accounting Standards

For a description of recent accounting pronouncements, please refer to Note 1 to the Notes to Consolidated Financial Statements herein.





Safe Harbor for Forward-Looking Statements

This Quarterly Report on Form 10-Q, 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 Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, 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,” “may,” “should,” “could,” “would” 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. Without limitation, projected developments in mortgage interest rates and the overall economic environment set forth in “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Business Trends and Recent Conditions” constitute 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:

- changes in interest rates and real estate values;
- other changes in general economic, business, and political conditions, including the overall performance of the financial and real estate markets;
- potential reform of government sponsored mortgage entities;
- the level of real estate transaction volumes, the level of mortgage origination volumes (including refinancing), the mix of title insurance between markets with varying real estate values, 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;
- the possible inadequacy of provisions for claims to cover actual claim losses;
- the incidence of fraud-related losses;
- unanticipated adverse changes in securities markets that could result in material losses to the Company's investments;
- significant competition that the Company’s operating subsidiaries face, including the Company’s ability to develop and offer products and services that meet changing industry standards in a timely and cost-effective manner and expansion into new geographic locations;
- the Company’s reliance upon the North Carolina and Texas markets for a significant portion of its premiums;
- compliance with government regulation, including pricing regulation, and significant changes to applicable regulations or in their application by regulators;
- the impact of governmental oversight of compliance of the Company's service providers, including the application of financial regulation designed to protect consumers;
- possible downgrades from a rating agency, which could result in a loss of underwriting business;
- the inability of the Company to manage, develop and implement technological advancements and prevent system interruptions or unauthorized system intrusions;
- statutory requirements applicable to the Company’s insurance subsidiaries that require them to maintain minimum levels of capital, surplus and reserves and that restrict the amount of dividends they may pay to the Company without prior regulatory approval;
- the desire to maintain capital above statutory minimum requirements for competitive, marketing and other reasons;
- heightened regulatory scrutiny and investigations of the title insurance industry;
- the Company’s dependence on key management and marketing personnel, the loss of whom could have a material adverse effect on the Company’s business;
- difficulty managing growth, whether organic or through acquisitions;
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unfavorable economic or other conditions could cause the Company to record impairment charges for all or a portion of its goodwill and other intangible assets;  
policies and procedures for the mitigation of risks that may be insufficient to prevent losses;  
the shareholder rights plan could discourage transactions involving actual or potential changes of control; and  
other risks detailed elsewhere in this document and in the Company's other filings with the SEC.

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. For more details on factors that could affect expectations, see the Company's Annual Report on Form 10-K for the year ended December 31, 2017. 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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

For the quarter ended September 30, 2018, there were no material changes in the Company's market risks as described in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in such reports is accumulated and communicated to the Company's management as appropriate to allow timely decisions regarding required disclosure.

No system of controls, no matter how well designed and operated, can provide absolute assurance that the objectives of the system of controls are met, and no evaluation of controls can provide absolute assurance that the system of controls has operated effectively in all cases. The Company's disclosure controls and procedures, however, are designed to provide reasonable assurance that the objectives of disclosure controls and procedures are met.

Pursuant to Rule 13a-15(b) under the Exchange Act, an evaluation was performed under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of September 30, 2018 to provide reasonable assurance that the objectives of disclosure controls and procedures are met.

Changes in Internal Control Over Financial Reporting

During the quarter ended September 30, 2018, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

## PART II. OTHER INFORMATION

## Item 1. Legal Proceedings

See discussion of legal proceedings in Note 7 to the Consolidated Financial Statements included in Part I, Item 1 of this Report, which is incorporated by reference into this Part II, Item 1.

## Item 1a. Risk Factors

There have been no material changes in risks previously disclosed under Item 1A. of the Company's Annual Report on Form 10-K for the year ended December 31, 2017, as supplemented in the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2018.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) None

(b) None

The following table provides information about purchases by the Company (and all affiliated purchasers), during (c) the quarter ended September 30, 2018, of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act:

Period	Issuer Purchases of Equity Securities (unrounded)			Maximum Number of Shares that May Yet Be Purchased Under the Plan
	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	
Beginning of period				428,295
July 2018	— \$	—	—	428,295
August 2018	— \$	—	—	428,295
September 2018	— \$	—	—	428,295
Total:	— \$	—	—	428,295

For the quarter ended September 30, 2018, the Company purchased no shares of the Company's common stock pursuant to the Company's ongoing purchase program that was initially announced on June 5, 2000. On November 9, 2015, the Board of Directors of the Company approved the purchase of an additional 163,335 shares pursuant to the Company's repurchase 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 (as such number may be amended by the Board) have been purchased. The Company anticipates making further purchases under this plan from time to time in the future, depending on such factors as the prevailing market price of the Company's common stock, the Company's available cash and then existing alternative uses for such cash.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

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Item 6. Exhibits

31(i) Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31(ii) Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101.INS XBRL Instance Document

101.SCHXBRL Taxonomy Extension Schema Document

101.CALXBRL Taxonomy Extension Calculation Linkbase Document

101.LABXBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

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SIGNATURE

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INVESTORS TITLE COMPANY

By: /s/ James A. Fine, Jr.

James A. Fine, Jr., President, Treasurer, Chief  
Financial Officer, Chief Accounting Officer and  
Director (Principal Financial Officer and  
Principal Accounting Officer)

Dated: November 7, 2018