

INVESTORS TITLE CO
Form 10-K
March 09, 2011
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
for the fiscal year ended December 31, 2010

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
for the transition period from ___ to ___

Commission file number 0-11774

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

North Carolina
(State or other jurisdiction
of
incorporation or
organization)

56-1110199
(I.R.S. Employer
Identification No.)

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

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

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

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

Yes No

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

Yes No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer Accelerated filer Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

The aggregate market value of the common shares held by non-affiliates was \$52,150,367 based on the closing sales price on the NASDAQ Global Market on the last business day of the registrant's most recently completed second fiscal quarter (June 30, 2010).

As of February 15, 2011, there were 2,280,196 common shares of the registrant outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Investors Title Company's definitive proxy statement for the Annual Meeting of Shareholders to be held May 18, 2011 are incorporated by reference in Part III hereof.

SAFE HARBOR FOR FORWARD-LOOKING STATEMENTS

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

the level of real estate transactions, the level of mortgage origination volumes (including refinancing) and changes to the insurance requirements of the participants in the secondary mortgage market, and the effect of these factors on the demand for title insurance;

changes in general economic, business, and political conditions, including the performance of the financial and real estate markets;

compliance with government regulation and significant changes to applicable regulations or in their application by regulators;

the possible inadequacy of provisions for claims to cover actual claim losses;

the incidence of fraud-related losses;

heightened regulatory scrutiny and investigations of the title insurance industry;

unanticipated adverse changes in securities markets, including interest rates, could result in material losses on the Company's investments;

the Company's dependence on key management personnel, the loss of whom could have a material adverse affect on the Company's business;

the Company's ability to develop and offer products and services that meet changing industry standards in a timely and cost-effective manner;

statutory requirements applicable to the Company's insurance subsidiaries which require them to maintain minimum levels of capital, surplus and reserves and restrict the amount of dividends that they may pay to the Company without prior regulatory approval;

significant competition that the Company's operating subsidiaries face;

the Company's business concentration in the State of North Carolina, the source of approximately 38% of our title insurance premiums;

weakness in the commercial real estate market and increases in the amount or severity of commercial real estate claims; and

other risks detailed elsewhere in this document and in the Company's other filings with the SEC.

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

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

INVESTORS TITLE COMPANY AND SUBSIDIARIES

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PART I

ITEM 1. BUSINESS

GENERAL

Investors Title Company (the "Company") is a holding company that operates through its subsidiaries and was incorporated in the state of North Carolina in 1973. The Company became operational in 1976, when it acquired Investors Title Insurance Company ("ITIC"), which had itself been operating since 1972, as a wholly owned subsidiary under a plan of exchange of shares of common stock. In 1983, the Company acquired National Investors Title Insurance Company ("NITIC"), formerly Northeast Investors Title Insurance Company, which had itself been operating since 1973, as a wholly owned subsidiary under a plan of exchange of shares of common stock. The Company's executive offices are located at 121 North Columbia Street, Chapel Hill, North Carolina 27514 and its telephone number is (919) 968-2200. The Company maintains a website at www.invttitle.com.

OVERVIEW OF THE BUSINESS

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

Title Insurance

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

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

Numerous types of defects could jeopardize the property owner's or mortgagee's interest in the property, as defined in the title policy. Such risks include title being vested in an individual or entity other than the insured, unmarketable title, lack of a right of access to the property, invalidity or unenforceability of the insured mortgage, or other defects, liens, or encumbrances against the property. Examples of common types of covered risks include defects arising from prior unsatisfied mortgages, tax liens or confirmed assessments, judgments against the property or encumbrances against the property arising through easements, restrictions or other existing covenants. Title insurance also generally protects against deeds or mortgages with inaccurate legal descriptions, that were forged or improperly acknowledged

or delivered, that were executed by spouses without the other spouse's signature or release of marital interest or that were conveyed by minors or incompetents.

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

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

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

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

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

Title Insurance Underwriting Operations. ITIC and NITIC issue title insurance through branch operations or through partially owned or independent title insurance agents. The Company's title insurance subsidiaries determine the terms and conditions upon which they will insure title to the real property according to their underwriting standards, policies and procedures. Title insurance premiums written reflect a one-time premium payment, with no recurring premiums.

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

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

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

NITIC was incorporated in South Carolina in 1973, and is licensed to write title insurance in 20 states and the District of Columbia. It currently writes title insurance as a primary insurer and as a reinsurer in the states of New York and Texas, and as a reinsurer for ITIC.

Premiums from title insurance written on properties located in the State of North Carolina represent the largest source of revenue for the title insurance segment. In North Carolina, ITIC primarily issues title insurance commitments and policies through branch offices. In other states, title policies are primarily issued through issuing agents. For a

description of the level of net premiums written geographically for significant states, refer to “Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations” in this Annual Report on Form 10-K.

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

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

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

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

Exchange Services, Investment Management and Trust Services, and Management Services

The Company's other lines of business include services offered by wholly owned subsidiaries ITEC, ITAC, Investors Trust, ICMC, and ITMS.

In 1988, the Company established ITEC to provide services in connection with tax-deferred exchanges of like-kind property pursuant to Section 1031 of the Internal Revenue Code. ITEC acts as an intermediary in tax-deferred exchanges of property held for productive use in a trade or business or for investments, and its income is derived from fees for handling exchange transactions and interest earned on client deposits held by the Company. ITAC provides services for accomplishing reverse exchanges when taxpayers decide to acquire replacement property before selling the relinquished property. The services provided by the Company's exchange division, ITEC and ITAC, are pursuant to provisions in the Internal Revenue Code. From time to time, these laws are subject to review and changes, which may negatively affect the demand for tax-deferred exchanges in general, and consequently the revenues and profitability of the Company's exchange division.

Investors Trust and ICMC work together to provide investment management and trust services to individuals, companies, banks and trusts.

ITMS offers various consulting services to provide clients with the technical expertise to start and successfully operate a title insurance agency.

None of these subsidiaries is currently a reportable segment for which separate financial information is presented; instead, they are collectively included and reported in the category "All Other" in the Company's financial statements.

CYCLICALITY AND SEASONALITY

Real estate activity, home sales and mortgage lending are cyclical in nature. Title insurance premiums are closely related to the level of real estate activity and the average price of real estate sales. The availability of funds to finance purchases directly affects real estate sales. Other factors include mortgage interest rates, consumer confidence, economic conditions, supply and demand and family income levels. The Company's 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 remaining spring and summer quarters tend to be more active. Refinance activity is generally less seasonal, but it is subject to interest rate fluctuations.

Fluctuations in mortgage interest rates, as well as other economic factors, can cause cyclical shifts in real estate activity outside of the normal pattern of seasonality. The Company anticipates that current market conditions, including the subprime lending crisis, rising foreclosures, weakening home sales, falling home prices and declining commercial real estate prices, will be the primary influences on the Company's operations until further stabilization occurs.

MARKETING

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

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

REGULATION

Title Insurance

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

Title insurance companies are extensively regulated under applicable state laws. All states have requirements for admission to do business as an insurance company, including minimum levels of capital and surplus and establishing reserves. State regulatory authorities monitor the stability and service of insurance companies and possess broad powers with respect to the licensing of title insurers and agents, approving rate schedules and policy forms, financial reporting and accounting practices, reserve requirements, investments and dividend restrictions, as well as examinations and audits of title insurers. At December 31, 2010, both ITIC and NITIC met the statutory premium reserve requirements and the minimum capital and surplus requirements of the states in which they are licensed. A substantial portion of the assets of the Company's title insurance subsidiaries consists of their portfolios of investment securities. Both of these subsidiaries are required by various states' laws to maintain assets of a defined minimum quality and amount.

The Company's insurance subsidiaries are subject to examination at any time by the insurance regulators in the states where they are licensed. These and other governmental authorities have the power to enforce state and federal laws to which the title insurance subsidiaries are subject, including but not limited to, the Real Estate Settlement Procedures Act ("RESPA"), the primary federal regulatory guidance covering the real estate settlement industry.

On July 22, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act. This legislation overhauls the regulations governing the real estate finance industry, and creates the Consumer Financial Protection Bureau ("CFPB") as an independent agency within the Federal Reserve Bank. The CFPB will have primary regulatory and enforcement authority over most consumer financial products and services, including the administration of RESPA. Within 12 months of the passage of the act, the CFPB must propose rules to harmonize the current RESPA disclosures with the required disclosures under the Truth in Lending Act.

The CFPB will also have authority to identify and address, through regulation, unfair, deceptive and abusive practices in the mortgage industry and certain other settlement service industries. The CFPB has been given broad enforcement authority to impose civil penalties for violations of \$5,000 per day for routine violations, \$25,000 per day for knowing violations and \$1,000,000 per day for reckless violations.

Once fully established, the CFPB may propose rules which will potentially impact the business of the Company. Further proposals to change regulations governing insurance holding companies and the title insurance industry are often introduced in Congress, in the state legislatures and before the various insurance regulatory agencies. The Company regularly monitors such proposals, but their likelihood and timing, and the impact they may have on the Company and its subsidiaries cannot be determined at this time.

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

Exchange Services, Investment Management and Trust Services, and Management Services

Exchange services are not federally regulated by any regulatory commission. ITEC and ITAC provide services pursuant to Internal Revenue Service regulations providing taxpayers a safe harbor by using a qualified intermediary

to structure tax-deferred exchanges of property and using an exchange accommodation titleholder to hold property in reverse exchange transactions.

Investors Trust is regulated by the North Carolina Commissioner of Banks. ICMC and ITMS are not regulated by any federal regulatory commission.

COMPETITION

The title insurance industry is highly competitive. The four largest title insurance companies typically maintain greater than eighty percent of the market for title insurance in the United States, with smaller “regional” companies holding the balance of the market. The number and size of competing companies varies in the respective geographic areas in which the Company conducts business. Key competitive factors in the title insurance industry are the financial strength and size of the insurer, timeliness and quality of service, price and expertise in certain transactions. Title insurance underwriters also compete for agents based upon service and commission levels. Some title insurers currently have greater financial resources, larger distribution networks and more extensive computerized databases of property records and related information than the Company. In addition, there are numerous industry-related regulations and statutes that set out conditions and requirements to conduct business. Changes to or the removal of such regulations and statutes could result in additional competition from alternative title insurance products or new entrants into the industry that could materially affect the Company's business operations and financial condition.

CUSTOMERS

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

INVESTMENT POLICIES

The Company and its subsidiaries derive a substantial portion of their income from investments in federal and municipal government securities and investment grade corporate bonds and equity securities. The Company's investment policy is designed to maintain a high quality portfolio and maximize income. Some state laws impose restrictions upon the types and amounts of investments that can be made by the Company's insurance subsidiaries. The Company manages its investment portfolio via an affiliated entity. The securities in the Company's portfolio are subject to economic conditions and normal market risks. The Company's equity securities at December 31, 2010 and 2009 consisted of investments in various industry groups. There were no significant investments in banks, trust and insurance companies at December 31, 2010. Short-term investments, which consist primarily of money market instruments and certificates of deposit which have an original maturity of one year or less, are carried at cost, which approximates fair value due to the short duration to maturity. In addition, at December 31, 2010 and 2009, the Company held investments that are accounted for using the equity method (see Note 1 of the Notes to the Consolidated Financial Statements in this Annual Report on Form 10-K.)

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

ENVIRONMENTAL MATTERS

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

EMPLOYEES

The holding company has no paid employees. Officers of the holding company are full-time paid employees of ITIC. The Company's subsidiaries had 185 full-time employees and 11 part-time employees as of December 31, 2010. None of the employees are covered by any collective bargaining agreements. Management considers its relationship with its employees to be favorable.

ADDITIONAL INFORMATION

The Company's internet address is www.invtitle.com, the contents of which are not and shall not be deemed a part of this document or any other Securities and Exchange Commission filing. The Company makes available free of charge through its internet website its annual reports on Form 10-K, its quarterly reports on Form 10-Q, its current reports on Form 8-K, and all amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after such materials are electronically filed with, or furnished to, the Securities and Exchange Commission ("SEC"), and also makes available the Section 16 reports on Forms 3, 4

and 5 of its insiders no later than the end of the business day following such filings. The information is free of charge and may be reviewed and downloaded from the website at any time. The public may read any material it has filed with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The "Investor Relations" section of the Company's website also includes its code of business conduct and ethics and the charters of the Audit, Compensation and Nominating Committees of its Board of Directors.

EXECUTIVE OFFICERS OF THE COMPANY

Following is information regarding the executive officers of the Company as of February 26, 2011. Each officer is appointed at the annual meeting of the Board of Directors to serve until the next annual meeting of the Board or until his or her respective successor has been elected and qualified.

Name	Age	Position with Registrant
J. Allen Fine	76	Chief Executive Officer and Chairman of the Board President, Treasurer, Chief Financial Officer, Chief Accounting Officer and Director
James A. Fine, Jr.	48	Executive Vice President, Secretary and Director
W. Morris Fine	44	

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

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

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

ITEM 1A. RISK FACTORS

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

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

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

The real estate and credit markets have experienced significant volatility and disruption for more than 3 years and have created a difficult operating environment for the Company and other companies in industries related to real

estate. The value of residential real estate property and the volume of new and existing home sales have significantly declined since the market peak in 2005. In addition, the Company holds investments in entities which may be negatively impacted by these conditions. The ultimate depth and duration of the current economic instability is unknown. If the current levels of real estate and credit market disruption and volatility continue or worsen, there can be no assurance that the Company will not experience adverse effects, which may be material, to its results of operations and financial condition.

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

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

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

Unfavorable claims experience will adversely affect the Company's financial results.

The Company's net income is affected by the extent to which its actual claims experience is consistent with the assumptions used in establishing reserves for claims. Reserves for claims are established based on actuarial estimates of how much the Company will need to pay for reported claims, as well as claims which have been incurred but not yet reported. In addition, management considers factors such as the Company's historical claims experience, case reserve estimates on reported claims, large claims and other relevant factors in determining loss provision rates and the aggregate recorded expected liability for claims. Due to the nature of the underlying risks and the high degree of uncertainty associated with the determination of reserves for claims, the Company cannot determine precisely the amounts which it will ultimately pay to settle its claims. Such amounts may vary from the