INVESTORS TITLE CO
Form 10-Q
November 07, 2013

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

FORM 10-Q

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

For the quarterly period ended September 30, 2013

OR

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

For the transition period from ___________________ to ___________________

Commission File Number: 0-11774

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

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

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

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

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

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

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

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

(do not check if a smaller
reporting company)

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

As of October 16, 2013, there were 2,066,922 common shares of the registrant outstanding.

INVESTORS TITLE COMPANY
AND SUBSIDIARIES

INDEX

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Investors Title Company and Subsidiaries
Consolidated Balance Sheets
As of September 30, 2013 and December 31, 2012
(Unaudited)

| | September 30, 2013 | December 31, 2012 |
|---|---|---|
| Assets: | | |
| Investments in securities: | | |
| Fixed maturities, available-for-sale, at fair value (amortized cost: 2013: $82,077,868; 2012: $75,573,673) | $86,100,498 | $81,936,978 |
| Equity securities, available-for-sale, at fair value (cost: 2013: $22,307,440; 2012: $21,229,114) | 33,460,972 | 28,510,933 |
| Short-term investments | 15,388,647 | 13,567,648 |
| Other investments | 7,311,949 | 6,763,100 |
| Total investments | 142,262,066 | 130,778,659 |
| | | |
| Cash and cash equivalents | 22,868,393 | 20,810,018 |
| Premium and fees receivable (less allowance for doubtful accounts: 2013: $2,021,793; 2012: $1,902,581) | 9,758,749 | 11,037,714 |
| Accrued interest and dividends | 1,041,472 | 1,037,447 |
| Prepaid expenses and other assets | 7,314,187 | 4,651,115 |
| Property, net | 4,204,506 | 3,603,323 |
| Current income taxes recoverable | 1,708,257 | — |
| Total Assets | $189,157,630 | $171,918,276 |
| | | |
| Liabilities and Stockholders' Equity | | |
| Liabilities: | | |
| Reserves for claims | $34,816,000 | $39,078,000 |
| Accounts payable and accrued liabilities | 21,331,255 | 15,477,545 |
| Current income taxes payable | — | 1,336,824 |
| Deferred income taxes, net | 5,259,773 | 893,156 |
| Total liabilities | 61,407,028 | 56,785,525 |
| | | |
| Commitments and Contingencies | — | — |
| | | |
| Redeemable Noncontrolling Interest | 512,749 | 493,861 |
| | | |
| Stockholders' Equity: | | |
| Preferred stock (1,000,000 authorized shares; no shares issued) | — | — |
| Common stock - no par value (10,000,000 authorized shares; 2,066,922 and 2,043,359 shares issued and outstanding 2013 and 2012, respectively, excluding 291,676 shares for 2013 and 2012 of common stock held by the Company's subsidiary) | 1 | 1 |
| Retained earnings | 117,418,431 | 105,820,459 |
| Accumulated other comprehensive income | 9,819,421 | 8,818,430 |
| Total stockholders' equity | 127,237,853 | 114,638,890 |

| | | |
|---|---|---|
| Total Liabilities and Stockholders' Equity | $189,157,630 | $171,918,276 |

See notes to the Consolidated Financial Statements.

1

Investors Title Company and Subsidiaries
Consolidated Statements of Income
For the Three and Nine Months Ended September 30, 2013 and 2012
(Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Revenues: | | | | |
| Net premiums written | $30,431,560 | $29,018,123 | $84,787,318 | $71,927,113 |
| Investment income - interest and dividends | 990,338 | 962,573 | 2,835,870 | 2,949,752 |
| Net realized gain on investments | 261,938 | 99,790 | 333,554 | 357,819 |
| Other | 1,921,403 | 2,196,922 | 6,190,170 | 5,537,323 |
| Total Revenues | 33,605,239 | 32,277,408 | 94,146,912 | 80,772,007 |
| Operating Expenses: | | | | |
| Commissions to agents | 18,142,697 | 16,840,421 | 49,240,917 | 40,683,365 |
| (Benefit) provision for claims | (3,037,101) | 2,432,057 | (2,429,289) | 4,424,523 |
| Salaries, employee benefits and payroll taxes | 7,133,497 | 5,598,722 | 19,533,970 | 16,080,639 |
| Office occupancy and operations | 1,165,772 | 984,303 | 3,266,112 | 2,956,470 |
| Business development | 606,549 | 472,436 | 1,487,635 | 1,254,691 |
| Filing fees, franchise and local taxes | 141,373 | 140,740 | 510,893 | 673,992 |
| Premium and retaliatory taxes | 592,717 | 423,626 | 1,563,764 | 1,312,906 |
| Professional and contract labor fees | 404,206 | 523,956 | 1,514,749 | 1,620,911 |
| Other | 179,006 | 143,232 | 560,170 | 481,755 |
| Total Operating Expenses | 25,328,716 | 27,559,493 | 75,248,921 | 69,489,252 |
| Income before Income Taxes | 8,276,523 | 4,717,915 | 18,897,991 | 11,282,755 |
| Provision for Income Taxes | 2,733,000 | 1,479,000 | 5,944,000 | 3,239,000 |
| Net Income | 5,543,523 | 3,238,915 | 12,953,991 | 8,043,755 |
| Less: Net Income Attributable to Redeemable Noncontrolling Interest | (27,725) | (80,730) | (55,788) | (103,943) |
| Net Income Attributable to the Company | $5,515,798 | $3,158,185 | $12,898,203 | $7,939,812 |
| Basic Earnings per Common Share | $2.67 | $1.52 | $6.26 | $3.80 |
| Weighted Average Shares Outstanding – Basic | 2,069,081 | 2,071,605 | 2,059,226 | 2,090,369 |
| Diluted Earnings per Common Share | $2.66 | $1.50 | $6.19 | $3.74 |
| Weighted Average Shares Outstanding – Diluted | 2,074,940 | 2,108,526 | 2,083,560 | 2,124,122 |
| Cash Dividends Paid per Common Share | $0.08 | $0.07 | $0.24 | $0.21 |

See notes to the Consolidated Financial Statements.

2

Investors Title Company and Subsidiaries
Consolidated Statements of Comprehensive Income
For the Three and Nine September 30, 2013 and 2012
(Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Net income | $5,543,523 | $3,238,915 | $12,953,991 | $8,043,755 |
| Other comprehensive (loss) income, before tax: | | | | |
| (Accretion) amortization related to prior year service cost | (380) | 2,349 | (1,139) | 7,047 |
| Amortization of unrecognized loss | 1,573 | 171 | 4,720 | 511 |
| Unrealized gains on investments arising during the period | 1,115,120 | 2,142,925 | 1,864,591 | 3,677,740 |
| Reclassification adjustment for sale of securities included in net income | (261,938) | (99,790) | (367,624) | (434,358) |
| Reclassification adjustment for write-down of securities included in net income | — | — | 34,070 | 76,539 |
| Other comprehensive income, before tax | 854,375 | 2,045,655 | 1,534,618 | 3,327,479 |
| Income tax expense related to postretirement health benefits | 415 | 858 | 1,228 | 2,571 |
| Income tax expense related to unrealized gains on investments arising during the year | 385,115 | 737,122 | 645,438 | 1,273,653 |
| Income tax benefit related to reclassification adjustment for sale of securities included in net income | (89,575) | (34,576) | (126,173) | (155,912) |
| Income tax expense related to reclassification adjustment for write-down of securities included in net income | — | — | 13,134 | 26,265 |
| Net income tax expense on other comprehensive income | 295,955 | 703,404 | 533,627 | 1,146,577 |
| Other comprehensive income | 558,420 | 1,342,251 | 1,000,991 | 2,180,902 |
| Comprehensive Income | $6,101,943 | $4,581,166 | $13,954,982 | $10,224,657 |
| Less: Comprehensive income attributable to redeemable noncontrolling interest | (27,725) | (80,730) | (55,788) | (103,943) |
| Comprehensive Income Attributable to the Company | $6,074,218 | $4,500,436 | $13,899,194 | $10,120,714 |

See notes to the Consolidated Financial Statements.

Investors Title Company and Subsidiaries
Consolidated Statements of Stockholders’ Equity
For the Nine Months Ended September 30, 2013 and 2012
(Unaudited)

| | Common Stock | | Retained Earnings | Accumulated Other Comprehensive Income | Total Stockholders’ Equity |
|---|---|---|---|---|---|
| | Shares | Amount | | | |
| Balance, January 1, 2012 | 2,107,681 | $1 | $99,003,018 | $7,509,165 | $106,512,184 |
| Net income attributable to the Company | | | 7,939,812 | | 7,939,812 |
| Dividends ($0.21 per share) | | | (438,431) | | (438,431) |
| Shares of common stock repurchased and retired | (51,207) | | (2,804,412) | | (2,804,412) |
| Stock options and stock appreciation rights exercised | 6,130 | | 152,792 | | 152,792 |
| Share-based compensation expense | | | 55,857 | | 55,857 |
| Amortization related to postretirement health benefits | | | | 4,987 | 4,987 |
| Net unrealized gain on investments | | | | 2,175,915 | 2,175,915 |
| Balance, September 30, 2012 | 2,062,604 | $1 | $103,908,636 | $9,690,067 | $113,598,704 |
| | | | | | |
| Balance, January 1, 2013 | 2,043,359 | $1 | $105,820,459 | $8,818,430 | $114,638,890 |
| Net income attributable to the Company | | | 12,898,203 | | 12,898,203 |
| Dividends ($0.24 per share) | | | (494,903) | | (494,903) |
| Shares of common stock repurchased and retired | (26,436) | | (1,881,323) | | (1,881,323) |
| Stock options and stock appreciation rights exercised | 49,999 | | 75,797 | | 75,797 |
| Share-based compensation expense | | | 62,108 | | 62,108 |
| Amortization related to postretirement health benefits | | | | 2,353 | 2,353 |
| Net unrealized gain on investments | | | | 998,638 | 998,638 |
| Income tax benefit from share-based compensation | | | 938,090 | | 938,090 |
| Balance, September 30, 2013 | 2,066,922 | $1 | $117,418,431 | $9,819,421 | $127,237,853 |

See notes to the Consolidated Financial Statements.

Investors Title Company and Subsidiaries
Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2013 and 2012
(Unaudited)

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2013 | 2012 |
| Operating Activities | | |
| Net income | $12,953,991 | $8,043,755 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 444,689 | 348,334 |
| Amortization, net | 378,947 | 320,666 |
| Amortization related to postretirement benefits obligation | 3,581 | 7,558 |
| Share-based compensation expense related to stock options | 62,108 | 55,857 |
| Increase in allowance for doubtful accounts on premiums receivable | 119,212 | 494,000 |
| Net loss (gain) on disposals of property | 778 | (23,076) |
| Net realized gain on investments | (333,554) | (357,819) |
| Net earnings from other investments | (1,050,854) | (1,211,188) |
| (Benefit) provision for claims | (2,429,289) | 4,424,523 |
| Provision for deferred income taxes | 3,833,000 | 1,076,000 |
| Excess tax benefits related to exercise of stock options and SARs | 938,090 | — |
| Changes in assets and liabilities: | | |
| Decrease (increase) in receivables | 1,159,753 | (3,892,948) |
| Increase in other assets | (2,771,634) | (524,563) |
| Increase in current income taxes recoverable | (1,708,257) | — |
| Increase in accounts payable and accrued liabilities | 5,853,711 | 847,971 |
| Decrease in current income taxes payable | (1,336,824) | (356,938) |
| Payments of claims, net of recoveries | (1,832,711) | (3,414,523) |
| Net cash provided by operating activities | 14,284,737 | 5,837,609 |
| | | |
| Investing Activities | | |
| Purchases of available-for-sale securities | (14,833,885) | (14,000,215) |
| Purchases of short-term securities | (4,886,789) | (5,434,469) |
| Purchases of other investments | (1,330,327) | (2,460,907) |
| Investment in/purchase of subsidiary | — | (350,000) |
| Proceeds from sales and maturities of available-for-sale securities | 7,321,758 | 11,860,920 |
| Proceeds from sales and maturities of short-term securities | 3,065,790 | 8,315,618 |
| Proceeds from sales and distributions of other investments | 1,761,362 | 1,379,198 |
| Proceeds from sales of other assets | 22,808 | 204,750 |
| Purchases of property | (1,063,985) | (373,045) |
| Proceeds from disposals of property | 17,335 | 51,093 |
| Net cash used in investing activities | (9,925,933) | (807,057) |
| | | |
| Financing Activities | | |
| Repurchases of common stock | (1,881,323) | (2,804,412) |
| Exercise of options | 75,797 | 152,792 |
| Dividends paid | (494,903) | (438,431) |
| Net cash used in financing activities | (2,300,429) | (3,090,051) |

| | | |
|---|---|---|
| Net Increase in Cash and Cash Equivalents | 2,058,375 | 1,940,501 |
| Cash and Cash Equivalents, Beginning of Period | 20,810,018 | 18,042,258 |
| Cash and Cash Equivalents, End of Period | $22,868,393 | $19,982,759 |

Consolidated Statements of Cash Flows, continued

| | Nine Months Ended September 30, | |
| --- | --- | --- |
| | 2013 | 2012 |
| Supplemental Disclosures: | | |
| Cash Paid During the Year for: | | |
| Income taxes, payments, net | $4,243,300 | $2,523,000 |
| Non Cash Investing and Financing Activities | | |
| Non cash net unrealized gain on investments, net of deferred tax provision of $(532,399) and $(1,144,006) for 2013 and 2012, respectively | $(998,638 ) | $(2,175,915 ) |
| Non cash intangible assets acquired from purchase of subsidiary | $— | $(1,481,900 ) |
| Non cash contingent liability from purchase of subsidiary | $— | $691,250 |

See notes to the Consolidated Financial Statements.

INVESTORS TITLE COMPANY
AND SUBSIDIARIES
Notes to Consolidated Financial Statements
September 30, 2013
(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, 2012 of Investors Title Company (the “Company”) for a complete description of the Company’s significant accounting policies.

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

In the opinion of management, all adjustments considered necessary for a fair presentation of the financial position, results of operations and cash flows of the Company in the accompanying unaudited Consolidated Financial Statements have been included.  All such adjustments are of a normal recurring nature.  Operating results for the quarter ended September 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

Reclassification – Certain 2012 amounts in the accompanying unaudited Consolidated Financial Statements have been reclassified to conform to the 2013 classifications. These reclassifications had no effect on stockholders’ equity or net income as previously reported.

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

The Company’s reserves for claims are established using estimated amounts required to settle claims for which notice has been received (reported) and the amount estimated to be required to satisfy incurred claims of policyholders which have been incurred but not reported (“IBNR”).  During the third quarter of 2013 certain actuarial inputs were changed to provide a more refined IBNR reserve estimate. See Note 2 in the accompanying Consolidated Financial Statements for further information regarding this change in accounting estimate.

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

Recently Issued Accounting Standards – In July 2013, the Financial Accounting Standards Board (“FASB”) updated guidance to eliminate diversity in practice relating to the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, similar tax loss or a tax credit carryforward exists. The main provision of the update requires that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, be presented in the financial statements as a reduction to deferred tax assets for a net operating loss carryforward, a similar tax loss or a tax credit carryforward, except to the extent that a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date to settle any additional income taxes that would result from disallowance of a tax position, or the tax law does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, in which case the unrecognized tax benefit should be presented as a liability. For public entities, this update becomes effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted, and the Company elected to adopt this new guidance in the third quarter of 2013. This update did not have an impact on the Company's financial condition or results of operations.

In February 2013, the FASB updated guidance to improve the reporting of reclassifications out of accumulated other comprehensive income. The main provisions of this guidance require an entity to provide information about the amount reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the footnotes, the amount reclassified out of accumulated other comprehensive income by the respective line items of net income if the amount is reclassified to net income in its entirety in the same reporting period. For other amounts that are not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures providing additional detail about those amounts. The amendments do not change the requirements for reporting net income or other comprehensive income in financial statements. The Company complied with this update, and it did not have an impact on the Company's financial condition or results of operations.

In June 2011, the FASB updated requirements relating to the presentation of comprehensive income. The objectives of this accounting update are to facilitate convergence of GAAP and International Financial Reporting Standards ("IFRS"), to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. The main provisions of the guidance require that all nonowner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. For public entities, this update became effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company complied with this update, and it did not have an impact on the Company's financial condition or results of operations.

In May 2011, the FASB updated requirements for measuring and disclosing fair value information, resulting in common principles and requirements in accordance with GAAP and IFRS. For public entities, this guidance became effective during interim and annual periods beginning after December 15, 2011. The Company complied with this update, and it did not have an impact on the Company's financial condition or results of operations.

Note 2 - Reserves for Claims

Transactions in the reserves for claims for the nine months ended September 30, 2013 and the year ended December 31, 2012 are summarized as follows:

| | September 30, 2013 | December 31, 2012 |
|---|---|---|
| Balance, beginning of period | $39,078,000 | $37,996,000 |
| (Benefit) Provision, charged to operations | (2,429,289) | 6,072,115 |
| Payments of claims, net of recoveries | (1,832,711) | (4,990,115) |
| Ending balance | $34,816,000 | $39,078,000 |

The total reserve for all reported and unreported losses the Company incurred through September 30, 2013 is represented by the reserves for claims. The Company's reserves for unpaid losses and loss adjustment expenses are established using estimated amounts required to settle claims for which notice has been received (reported) and the amount estimated to be required to satisfy IBNR. Despite the variability of such estimates, management believes that the reserves are adequate to cover claim losses which might result from pending and future claims under policies issued through September 30, 2013. The Company continually reviews and adjusts its reserve estimates to reflect its loss experience and any new information that becomes available. Adjustments resulting from such reviews may be significant.

During the third quarter of 2013 certain actuarial inputs were changed to provide a more refined IBNR reserve estimate. The Company considers these modifications in actuarial inputs to be a change in estimate. The Company believes that these changes in actuarial inputs were necessary in response to favorable reserve development and claims experience incurred in several recent reporting periods. The approximate impact of this change in estimate for the quarter ended September 30, 2013 was a reduction of $2,400,000 to the reserves for claims in the Consolidated

Balance Sheets, and in the Consolidated Statements of Income a decrease of $2,400,000 to the provision for claims, an increase of $821,000 in the provision for income taxes and an increase of $1,579,000 in net income, or approximately $0.76 per share, compared with the amounts that would have been recorded under the Company's prior estimate. This change in estimate, coupled with several recent policy years which continued to emerge favorably in comparison with prior expectations, contributed to a benefit in the claims provision this quarter. The change in estimate was primarily driven by the following:

- Changing the specific weightings used in performing certain actuarial methods, including weighting between policy years and weighting of title industry loss data;
- Making an adjustment to recognize revenue rate change information and the Company's improved underwriting efforts related to construction business; and
- Increasing the ratios used to estimate projected payments of unallocated loss adjustment expenses to more accurately reflect expected payments.

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

| | September 30, 2013 | % | December 31, 2012 | % |
|---|---|---|---|---|
| Known title claims | $4,474,405 | 12.9 | $5,166,370 | 13.2 |
| IBNR | 30,341,595 | 87.1 | 33,911,630 | 86.8 |
| Total loss reserves | $34,816,000 | 100.0 | $39,078,000 | 100.0 |

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

Note 3 - Earnings Per Common Share and Share Awards

Basic earnings per common share is computed by dividing net income attributable to the Company by the weighted-average number of common shares outstanding during the reporting period. Diluted earnings per common share is computed by dividing net income attributable to the Company by the combination of dilutive potential common stock, comprised of shares issuable under the Company's share-based compensation plans and the weighted-average number of common shares outstanding during the reporting period. Dilutive common share equivalents include the dilutive effect of in-the-money share-based awards, which are calculated based on the average share price for each period using the treasury stock method. Under the treasury stock method, when share-based awards are exercised, (a) the exercise price of a share-based award; (b) the amount of compensation cost, if any, for future service that the Company has not yet recognized; and (c) the amount of estimated tax benefits that would be recorded in additional paid-in capital, if any, are assumed to be used to repurchase shares in the current period. The incremental dilutive potential common shares, calculated using the treasury stock method, were 5,859 and 36,921 for the three months ended September 30, 2013 and 2012, respectively, and 24,334 and 33,753 for the nine months ended September 30, 2013 and 2012, respectively.

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Net income attributable to the Company | $5,515,798 | $3,158,185 | $12,898,203 | $7,939,812 |
| Weighted average common shares outstanding – Basic | 2,069,081 | 2,071,605 | 2,059,226 | 2,090,369 |
| Incremental shares outstanding assuming the exercise of dilutive stock options and SARs (share-settled) | 5,859 | 36,921 | 24,334 | 33,753 |
| Weighted average common shares outstanding – Diluted | 2,074,940 | 2,108,526 | 2,083,560 | 2,124,122 |
| Basic earnings per common share | $2.67 | $1.52 | $6.26 | $3.80 |
| Diluted earnings per common share | $2.66 | $1.50 | $6.19 | $3.74 |

There were no potential shares excluded from the computation of diluted earnings per share for the three months ended September 30, 2013 and 2012. There were no potential shares excluded from the computation of diluted earnings per share for the nine months ended September 30, 2012. There were 3,000 potential shares excluded from the computation of diluted earnings per share for the nine months ended September 30, 2013. These potential shares were anti-dilutive because the underlying share awards were out-of-the-money.

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

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

| | Number Of Shares | Weighted Average Exercise Price | Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding as of January 1, 2012 | 101,600 | $29.81 | 3.91 | $697,780 |
| SARs granted | 3,000 | 50.50 | | |
| SARs exercised | — | — | | |
| Options exercised | (6,380) | 25.17 | | |
| Options/SARs canceled/forfeited/expired | (70) | 31.00 | | |
| Outstanding as of December 31, 2012 | 98,150 | $30.74 | 3.17 | $2,871,710 |
| SARs granted | 3,000 | 71.59 | | |
| SARs exercised | (79,500) | 28.77 | | |
| Options exercised | (2,650) | 28.63 | | |
| Options/SARs canceled/forfeited/expired | — | — | | |
| Outstanding as of September 30, 2013 | 19,000 | $45.74 | 3.68 | $557,890 |
| Exercisable as of September 30, 2013 | 17,500 | $43.52 | 3.43 | $552,625 |
| Unvested as of September 30, 2013 | 1,500 | $71.59 | 6.63 | $5,265 |

During the second quarters of both 2013 and 2012, the Company issued a total of 3,000 share-settled SARs to the directors of the Company. SARs give the holder the right to receive stock equal to the appreciation in the value of shares of stock from the grant date for a specified period of time, and as a result, are accounted for as equity instruments. The fair value of each award is estimated on the date of grant using the Black-Scholes option valuation model with the weighted-average assumptions noted in the table shown below. Expected volatilities are based on both the implied and historical volatility of the Company's stock. The Company uses historical data to project SAR exercises and pre-exercise forfeitures within the valuation model. The expected term of awards represents the period of time that SARs granted are expected to be outstanding. The interest rate assumed for the expected life of the award is based on the U.S. Treasury yield curve in effect at the time of the grant. The weighted-average fair values for the SARs issued during 2013 and 2012 were $27.55 and $18.84, respectively, and were estimated using the weighted-average assumptions shown in the table below.

| | 2013 | 2012 |
|---|---|---|
| Expected Life in Years | 5.0 | 5.0 |
| Volatility | 44.6% | 44.6% |
| Interest Rate | 1.3% | 0.8% |
| Yield Rate | 0.5% | 0.6% |

There was approximately $62,000 and $56,000 of compensation expense relating to SARs or options vesting on or before September 30, 2013 and 2012, included in salaries, employee benefits and payroll taxes in the Consolidated Statements of Income. As of September 30, 2013, there was approximately $45,000 of total unrecognized compensation cost related to unvested share-based compensation arrangements granted under the Company’s stock award plans. That cost is expected to be recognized over a weighted-average period of approximately 5 months.

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

Note 4 – Segment Information

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

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

Provided below is selected financial information about the Company's operations by segment for the periods ended September 30, 2013 and 2012:

| Three Months Ended September 30, 2013 | Title Insurance | All Other | Intersegment Eliminations | Total |
|---|---|---|---|---|
| Insurance and other services revenues | $31,343,108 | $1,396,309 | $(386,454) | $32,352,963 |
| Investment income | 919,819 | 93,854 | (23,335) | 990,338 |
| Net realized gain on investments | 250,600 | 11,338 | — | 261,938 |
| Total revenues | $32,513,527 | $1,501,501 | $(409,789) | $33,605,239 |
| Operating expenses | 24,212,255 | 1,485,494 | (369,033) | 25,328,716 |
| Income before income taxes | $8,301,272 | $16,007 | $(40,756) | $8,276,523 |
| Total assets | $151,795,001 | $37,362,629 | $— | $189,157,630 |

| Three Months Ended September 30, 2012 | Title Insurance | All Other | Intersegment Eliminations | Total |
|---|---|---|---|---|
| Insurance and other services revenues | $30,429,446 | $1,356,733 | $(571,134) | $31,215,045 |
| Investment income | 832,241 | 150,749 | (20,417) | 962,573 |
| Net realized gain on investments | 85,560 | 14,230 | — | 99,790 |
| Total revenues | $31,347,247 | $1,521,712 | $(591,551) | $32,277,408 |
| Operating expenses | 27,086,970 | 1,026,236 | (553,713) | 27,559,493 |
| Income before income taxes | $4,260,277 | $495,476 | $(37,838) | $4,717,915 |
| Total assets | $132,713,703 | $37,296,333 | $— | $170,010,036 |

| Nine Months Ended September 30, 2013 | Title Insurance | All Other | Intersegment Eliminations | Total |
|---|---|---|---|---|
| Insurance and other services revenues | $88,063,272 | $4,004,766 | $(1,090,550) | $90,977,488 |
| Investment income | 2,626,642 | 279,231 | (70,003) | 2,835,870 |
| Net realized gain (loss) on investments | 341,674 | (8,120) | — | 333,554 |
| Total revenues | $91,031,588 | $4,275,877 | $(1,160,553) | $94,146,912 |
| Operating expenses | 71,657,966 | 4,629,241 | (1,038,286) | 75,248,921 |
| Income (loss) before income taxes | $19,373,622 | $(353,364) | $(122,267) | $18,897,991 |
| Total assets | $151,795,001 | $37,362,629 | $— | $189,157,630 |

| Nine Months Ended September 30, 2012 | Title Insurance | All Other | Intersegment Eliminations | Total |
|---|---|---|---|---|
| Insurance and other services revenues | $74,967,470 | $3,635,577 | $(1,138,611) | $77,464,436 |
| Investment income | 2,566,875 | 444,129 | (61,252) | 2,949,752 |
| Net realized gain on investments | 182,249 | 175,570 | — | 357,819 |
| Total revenues | $77,716,594 | $4,255,276 | $(1,199,863) | $80,772,007 |
| Operating expenses | 66,772,534 | 3,820,487 | (1,103,769) | 69,489,252 |
| Income before income taxes | $10,944,060 | $434,789 | $(96,094) | $11,282,755 |
| Total assets | $132,713,703 | $37,296,333 | $— | $170,010,036 |

Note 5 – Retirement Agreements and Other Postretirement Benefits

The Company's subsidiary, Investors Title Insurance Company, is party to employment agreements with key executives that provide for the continuation of certain employee benefits and other payments due under the agreements upon retirement totaling $6,597,000 and $6,303,000 as of September 30, 2013 and December 31, 2012, respectively. The executive employee benefits include health insurance, dental, vision and life insurance and are unfunded. These amounts are classified as accounts payable and accrued liabilities in the Consolidated Balance Sheets. The following sets forth the net periodic benefits cost for the executive benefits for the periods ended September 30, 2013 and 2012:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Service cost – benefits earned during the year | $3,946 | $3,155 | $11,837 | $9,463 |
| Interest cost on the projected benefit obligation | 7,103 | 6,966 | 21,309 | 20,900 |
| (Accretion) amortization of unrecognized prior service cost | (380) | 2,349 | (1,139) | 7,047 |
| Amortization of unrecognized losses | 1,573 | 171 | 4,720 | 511 |
| Net periodic benefits costs | $12,242 | $12,641 | $36,727 | $37,921 |

Note 6 - Fair Value Measurement

Valuation of Financial Assets and Liabilities

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

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

Debt and Equity Securities

The Level 1 category includes equity securities that are measured at fair value using quoted active market prices and money market mutual funds valued at transacted amounts.

The Level 2 category includes fixed maturity investments such as corporate bonds, U.S. government and agency bonds and municipal bonds. Fair value is principally based on market values obtained from a third party pricing service. Factors that are used in determining fair market value include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. The Company receives one quote per security from a third party pricing service, although as discussed below, the Company does consult other pricing resources when confirming that the prices it obtains reflect the fair values of the instruments in accordance with Accounting Standards Codification ("ASC") 820, Fair Value Measurements and Disclosures. Generally, quotes obtained from the pricing service for instruments classified as Level 2 are not adjusted and are not binding. As of September 30, 2013 and December 31, 2012, the Company did not adjust any Level 2 fair values.

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

The Level 3 category only includes the Company's investments in student loan auction rate securities ("ARS") because quoted prices were unavailable due to the failure of auctions. The Company's ARS portfolio is comprised entirely of investment grade student loan ARS. The par value of these securities was $1,000,000 as of September 30, 2013 and December 31, 2012, with approximately 97.0% as of September 30, 2013 and December 31, 2012, guaranteed by the U.S. Department of Education.

Some of the inputs to ARS valuation are unobservable in the market and are significant—therefore, the Company utilizes another third party pricing service to assist in the determination of the fair market value of these securities. That service uses a proprietary valuation model that considers factors such as the following: the financial standing of the issuer; reported prices and the extent of public trading in similar financial instruments of the issuer or comparable companies; the ability of the issuer to obtain required financing; changes in the economic conditions affecting the issuer; pricing by other dealers in similar securities; time to maturity; and interest rates. The following table summarizes some key assumptions the service used to determine fair value as of September 30, 2013 and December 31, 2012:

| | 2013 | 2012 |
|---|---|---|
| Cumulative probability of earning maximum rate until maturity | —% | —% |
| Cumulative probability of principal returned prior to maturity | 95.8% | 96.1% |
| Cumulative probability of default at some future point | 4.3% | 3.9% |

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

Based upon these inputs and assumptions, the pricing service provides a range of values to the Company for its ARS. The Company records the fair value based on the midpoint of the range and believes that this valuation is the most reasonable estimate of fair value. In 2013 and 2012, the difference in the low and high values of the ranges was between approximately three and four percent of the carrying value of the Company's ARS.

The following table presents, by level, the financial assets carried at fair value measured on a recurring basis as of September 30, 2013 and December 31, 2012. The table does not include cash on hand and also does not include assets which are measured at historical cost or any basis other than fair value. Level 3 assets are comprised solely of ARS.

| As of September 30, 2013 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Short-term Investments | $15,388,647 | $— | $— | $15,388,647 |
| Equity Securities | | | | |
| Common stock and nonredeemable preferred stock | 33,460,972 | — | — | 33,460,972 |
| Fixed Maturities | | | | |
| Obligations of states and political subdivisions* | — | 67,185,978 | — | 67,185,978 |
| Corporate debt securities* | — | 17,986,320 | 928,200 | 18,914,520 |
| Total | $48,849,619 | $85,172,298 | $928,200 | $134,950,117 |
| As of December 31, 2012 | Level 1 | Level 2 | Level 3 | Total |
| Short-term Investments | $13,567,648 | $— | $— | $13,567,648 |
| Equity Securities | | | | |
| Common stock and nonredeemable preferred stock | 28,510,933 | — | — | 28,510,933 |
| Fixed Maturities | | | | |
| Obligations of states and political subdivisions* | — | 62,701,858 | — | 62,701,858 |
| Corporate debt securities* | — | 18,302,920 | 932,200 | 19,235,120 |
| Total | $42,078,581 | $81,004,778 | $932,200 | $124,015,559 |

*Denotes fair market value obtained from pricing services.

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

13

To help ensure that fair value determinations are consistent with ASC 820 fair value measurements, prices from our pricing services go through multiple review processes 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 service reevaluates the price to corroborate the market information and then reviews inputs to the evaluation in light of potentially new market data. The Company believes that these processes and inputs result in appropriate classifications and fair values consistent with ASC 820.

Other Financial Instruments

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

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

Cash and cash equivalents

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

Cost-basis investments

The estimated fair value of cost-basis investments is calculated from the book value of the underlying entities, which is not materially different from the fair market value of the underlying entity.

Accrued dividends and interest

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

Contingent consideration

The fair value of contingent consideration was estimated based on the discounted value of future cash flows. Contingent consideration consists of additional monies the Company may become obligated to pay based on the future performance of a business the Company acquired, as discussed in Note 10.

The carrying amounts and fair values of these financial instruments (please note investments are disclosed in a previous table) as of September 30, 2013 and December 31, 2012 are presented in the following table:

| As of September 30, 2013 | Carrying Value | Estimated Fair Value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|---|
| Financial Assets | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Cash | $22,868,393 | $22,868,393 | $22,868,393 | $— | $— |
| Cost-basis investments | 1,895,895 | 2,030,099 | — | — | 2,030,099 |
| Accrued dividends and interest | 1,041,472 | 1,041,472 | 1,041,472 | — | — |
| Total Financial Assets | $25,805,760 | $25,939,964 | $23,909,865 | $— | $2,030,099 |
| Financial Liabilities | | | | | |
| Contingent consideration | $341,250 | $341,250 | $— | $— | $341,250 |
| Total Financial Liabilities | $341,250 | $341,250 | $— | $— | $341,250 |

| As of December 31, 2012 | Carrying Value | Estimated Fair Value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|---|
| Financial Assets | | | | | |
| Cash | $20,810,018 | $20,810,018 | $20,810,018 | $— | $— |
| Cost-basis investments | 1,871,315 | 1,952,323 | — | — | 1,952,323 |
| Accrued dividends and interest | 1,037,447 | 1,037,447 | 1,037,447 | — | — |
| Total Financial Assets | $23,718,780 | $23,799,788 | $21,847,465 | $— | $1,952,323 |
| Financial Liabilities | | | | | |
| Contingent consideration | $691,250 | $691,250 | $— | $— | $691,250 |
| Total Financial Liabilities | $691,250 | $691,250 | $— | $— | $691,250 |

The following table presents a reconciliation of the Company's assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3), which are all ARS securities, for the period ended September 30, 2013 and the year ended December 31, 2012:

| Changes in fair value during the period ended: | 2013 | 2012 |
|---|---|---|
| Beginning balance at January 1 | $932,200 | $4,552,400 |
| Redemptions and sales | — | (3,900,000) |
| Realized gain – included in net realized gain on investments | — | 211,061 |
| Unrealized (loss) gain - included in other comprehensive income | (4,000) | 68,739 |
| Ending balance, net | $928,200 | $932,200 |

The following table presents a reconciliation of the Company's liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3), consisting solely of contingent acquisition consideration, for the period ended September 30, 2013 and the year ended December 31, 2012:

| Changes in fair value during the period ended: | 2013 | 2012 |
|---|---|---|
| Beginning balance at January 1 | $691,250 | $— |
| Addition of contingent consideration | — | 691,250 |
| Payment for contingent consideration | (350,000) | — |
| Ending balance, net | $341,250 | $691,250 |

Certain cost method investments are measured at estimated fair value on a non-recurring basis, such as investments that are impaired during the period and recorded at estimated fair value in the Consolidated Financial Statements as of September 30, 2013 and December 31, 2012.

The following table summarizes the corresponding estimated fair value hierarchy of such investments at September 30, 2013 and December 31, 2012 and the related impairments recognized.

| As of September 30, 2013 | Valuation Method | Impaired | Level 1 | Level 2 | Level 3 | Total at Estimated Fair Value | Impairment Losses |
|---|---|---|---|---|---|---|---|
| Cost method investments | Fair Value | Yes | $— | $— | $31,486 | $31,486 | $(34,070) |
| Total cost method investments | | | $— | $— | $31,486 | $31,486 | $(34,070) |

| As of December 31, 2012 | Valuation Method | Impaired | Level 1 | Level 2 | Level 3 | Total at Estimated Fair Value | Impairment Losses |
|---|---|---|---|---|---|---|---|
| Cost method investments | Fair Value | Yes | $— | $— | $36,406 | $36,406 | $(6,504) |
| Total cost method investments | | | $— | $— | $36,406 | $36,406 | $(6,504) |

Note 7 – Investments in Securities

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

| As of September 30, 2013 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|
| Fixed maturities, available-for-sale, at fair value- | | | | |
| General obligations of U.S. states, territories and political subdivisions | $37,441,654 | $2,159,279 | $168,826 | $39,432,107 |
| Special revenue obligations of U.S. states, territories and political subdivisions | 26,462,356 | 1,396,079 | 104,564 | 27,753,871 |
| Corporate debt securities | 17,254,805 | 812,949 | 81,434 | 17,986,320 |
| Auction rate securities | 919,053 | 9,147 | — | 928,200 |
| Total | $82,077,868 | $4,377,454 | $354,824 | $86,100,498 |
| Equity securities, available-for-sale at fair value- | | | | |
| Common stocks and nonredeemable preferred stocks | $22,307,440 | $11,421,927 | $268,395 | $33,460,972 |
| Total | $22,307,440 | $11,421,927 | $268,395 | $33,460,972 |
| Short-term investments- | | | | |
| Certificates of deposit and other | $15,388,647 | $— | $— | 15,388,647 |
| Total | $15,388,647 | $— | $— | $15,388,647 |

| As of December 31, 2012 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|
| Fixed maturities, available-for-sale, at fair value- | | | | |
| General obligations of U.S. states, territories and political subdivisions | $38,658,463 | $3,211,445 | $— | $41,869,908 |
| Special revenue obligations of U.S. states, territories and political subdivisions | 18,933,299 | 1,909,106 | 10,455 | 20,831,950 |
| Corporate debt securities | 17,064,697 | 1,252,973 | 14,750 | 18,302,920 |
| Auction rate securities | 917,214 | 14,986 | — | 932,200 |
| Total | $75,573,673 | $6,388,510 | $25,205 | $81,936,978 |
| Equity securities, available-for-sale at fair value- | | | | |
| Common stocks and nonredeemable preferred stocks | $21,229,114 | $7,373,056 | $91,237 | $28,510,933 |
| Total | $21,229,114 | $7,373,056 | $91,237 | $28,510,933 |
| Short-term investments- | | | | |
| Certificates of deposit and other | $13,567,648 | $— | $— | $13,567,648 |
| Total | $13,567,648 | $— | $— | $13,567,648 |

16

The scheduled maturities of fixed maturity securities at September 30, 2013 were as follows:

| | Available-for-Sale | |
|---|---|---|
| | Amortized Cost | Fair Value |
| Due in one year or less | $9,485,479 | $9,662,557 |
| Due after one year through five years | 49,733,901 | 52,819,225 |
| Due five years through ten years | 15,008,510 | 15,418,411 |
| Due after ten years | 7,849,978 | 8,200,305 |
| Total | $82,077,868 | $86,100,498 |

Realized gains and losses on investments for the nine months ended September 30 are summarized as follows:

| | 2013 | 2012 |
|---|---|---|
| Gross realized gains: | | |
| General obligations of U.S. states, territories and political subdivisions | $— | $250 |
| Corporate debt securities | — | 2,612 |
| Common stocks and nonredeemable preferred stocks | 365,922 | 199,977 |
| Auction rate securities | — | 118,336 |
| Total | $365,922 | $321,175 |
| Gross realized losses: | | |
| Common stocks and nonredeemable preferred stocks | $(21,106) | $(91,975) |
| Other than temporary impairment of securities | — | (76,539) |
| Total | $(21,106) | $(168,514) |
| Net realized gain from securities | $344,816 | $152,661 |
| Net realized gains (losses) on other investments: | | |
| Impairments of other investments | $(34,070) | $— |
| Gain on other investments | 25,308 | 205,158 |
| Loss on other investments | (2,500) | — |
| Total | $(11,262) | $205,158 |
| Net Realized Gain | $333,554 | $357,819 |

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

The following table presents the gross unrealized losses on investment securities and the fair value of the securities, aggregated by investment category and length of time that individual securities have been in a continuous loss position at September 30, 2013 and December 31, 2012.

| | Less than 12 Months | | 12 Months or Longer | | Total | |
|---|---|---|---|---|---|---|
| As of September 30, 2013 | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| General obligations of U.S. states, territories and political subdivisions | $959,189 | $(168,826) | $— | $— | $959,189 | $(168,826) |
| Special revenue obligations of U.S. states territories and political subdivisions | 2,818,460 | (104,564) | — | — | 2,818,460 | (104,564) |
| Corporate | 4,473,175 | (81,434) | — | — | 4,473,175 | (81,434) |
| Total fixed income securities | $8,250,824 | $(354,824) | $— | $— | $8,250,824 | $(354,824) |
| Equity securities | $1,751,137 | $(230,029) | $200,746 | $(38,366) | $1,951,883 | $(268,395) |
| Total temporarily impaired securities | $10,001,961 | $(584,853) | $200,746 | $(38,366) | $10,202,707 | $(623,219) |

17

| As of December 31, 2012 | Less than 12 Months Fair Value | Less than 12 Months Unrealized Losses | 12 Months or Longer Fair Value | 12 Months or Longer Unrealized Losses | Total Fair Value | Total Unrealized Losses |
|---|---|---|---|---|---|---|
| General obligations of U.S. states, territories and political subdivisions | $1,236,906 | $(10,455 ) | $— | $— | $1,236,906 | $(10,455 ) |
| Corporate debt securities | 985,250 | (14,750 ) | — | — | 985,250 | (14,750 ) |
| Total fixed income securities | $2,222,156 | $(25,205 ) | $— | $— | $2,222,156 | $(25,205 ) |
| Equity securities | $2,551,215 | $(91,237 ) | $— | $— | $2,551,215 | $(91,237 ) |
| Total temporarily impaired securities | $4,773,371 | $(116,442 ) | $— | $— | $4,773,371 | $(116,442 ) |

As of September 30, 2013, the Company held $8,250,824 in fixed maturity securities with unrealized losses of $354,824.  As of December 31, 2012, the Company held $2,222,156 in fixed maturity securities with unrealized losses of $25,205.  The decline in 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.

As of September 30, 2013, the Company held $1,951,883 in equity securities with unrealized losses of $268,395.  As of December 31, 2012, the Company held $2,551,215 in equity securities with unrealized losses of $91,237.  The unrealized losses related to holdings of equity securities were caused by market changes that the Company considers to be temporary.  Since the Company has the intent and ability to hold these equity securities until a recovery of fair value, the Company does not consider these investments 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 19  and 7 securities had unrealized losses at September 30, 2013 and December 31, 2012, 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.  During the nine months ended September 30, 2013 and 2012, the Company recorded other-than-temporary impairment charges in the amount of $0 and $76,539, respectively, for securities.  For the 2012 fiscal year, the Company recorded other-than-temporary impairment charges in the amount of $93,436 related to securities.  Other-than-temporary impairment charges are included in net realized gain on investments in the Consolidated Statements of Income.

Note 8 – 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 and inquiries. It is the opinion of management based on its present expectations that these audits and inquiries will not have a material impact on the Company’s consolidated financial condition or operations.

Escrow and Trust Deposits.  As a service to its customers, the Company, through Investors Title Insurance Company (“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 ("LLCs") 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 $60,431,000 and $55,580,000 as of September 30, 2013 and December 31, 2012, 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 the disposition of the 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 other revenue rather than investment income. These like-kind exchange funds are primarily invested in money market and other short-term investments.

Note 9 – 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, Consolidated Balance Sheets | As of September 30, 2013 | As of December 31, 2012 |
|---|---|---|
| Other investments | $5,416,000 | $4,892,000 |
| Premiums and fees receivable | $787,000 | $1,011,000 |

| Financial Statement Classification, Consolidated Statements of Income | For the Three Months Ended September 30, 2013 | 2012 | For the Nine Months Ended September 30, 2013 | 2012 |
|---|---|---|---|---|
| Net premiums written | $3,328,000 | $4,266,000 | $10,686,000 | $11,473,000 |
| Other income | $381,000 | $655,000 | $1,450,000 | $1,628,000 |

During the second quarter of 2013, the Company repurchased 17,524 shares of Company common stock from officers of the Company at a price of $71.50 per share to cover withholding taxes payable by the officers upon the exercise of SARs.

Note 10 – Acquisition

In January 2012, a subsidiary of the Company, ITIC, entered into a membership interest purchase and sale agreement under which it agreed to acquire a majority ownership interest of United Title Agency Co., LLC ("United"). United, a Michigan limited liability company, is an insurance agency doing business in the State of Michigan. On April 2, 2012, ITIC purchased a 70% ownership interest in United, with both ITIC and the seller having the option to require ITIC to purchase the remaining 30% interest not less than 27 months from the closing.

The acquisition date fair value of the total consideration to be transferred was $1,041,250. This fair value total was equal to $350,000 ITIC had already paid toward the purchase price, as well as $691,250 in estimated contingent payments. As of September 30, 2013, management's calculation of the fair value of consideration to be transferred is materially unchanged from its acquisition date amount. During the second quarter of 2013, ITIC paid an additional $350,000 toward the purchase price. The resulting contingent payments of $341,250 and $691,250 are categorized in the Consolidated Balance Sheets as accounts payable and accrued liabilities as of September 30, 2013 and December 31, 2012, respectively.

The contingent payment arrangement requires that the purchase price for the 70% majority interest be paid over the next two years and determined by multiplying United's actual GAAP net income for the first full 24 calendar months subsequent to closing by an agreed upon factor. In no event will the purchase price for the majority interest exceed \$1,041,250. The fair value of the contingent payment was derived using the Company's best estimate (Level 3 inputs) of net income of approximately \$859,000 during the 24-month period, discounted at a 15% rate, and limited to the contractual maximum. The amounts previously paid will be used to offset contingent payment amounts calculated for final consideration, and is eligible for refunding in part or in its entirety if greater than the final settlement amount.

In the event that ITIC purchases the remaining 30% interest, the purchase price of the redeemable noncontrolling interest will be calculated by multiplying United's GAAP net income for the full 24 calendar months immediately preceding the written notice of the option exercise by an agreed upon factor. The agreement stipulates a minimum purchase price of $1,000,000 for the entire agency should this option be exercised.

As certain provisions of the membership interest purchase and sale agreement place the acquisition of the remaining 30% by ITIC out of ITIC's control, the noncontrolling interest in United is deemed redeemable. The redeemable noncontrolling interest is presented outside of permanent equity, as redeemable equity in the Consolidated Balance Sheets. On the acquisition date, the fair value of the redeemable noncontrolling interest was $446,250. The fair value of the redeemable noncontrolling interest was based on the noncontrolling interest's share of the value of net assets.

The following table provides a reconciliation of total redeemable equity for the periods ended September 30, 2013 and December 31, 2012:

| Changes in fair value during the period ended: | September 30, 2013 | December 31, 2012 |
|---|---|---|
| Beginning balance at January 1 | $493,861 | $— |
| Redeemable noncontrolling interest resulting from subsidiary purchase | — | 446,250 |
| Net income attributable to redeemable noncontrolling interest | 55,788 | 88,411 |
| Distributions to noncontrolling interest | (36,900) | (40,800) |
| Balance, net | $512,749 | $493,861 |

Fair valuation methods used for the identifiable tangible net assets acquired in the acquisition make use of discounted cash flows using current interest rates. The fair value of identifiable net tangible assets at the acquisition date was $5,600. Identifiable assets acquired included cash and fixed assets. Liabilities assumed consisted of notes payable.

The transaction was accounted for using the acquisition method required by ASC 805, Business Combinations. Accordingly, the Company recognized the required identifiable intangible assets of United. There was no goodwill recorded as a result of the acquisition. The fair values of intangible assets, all Level 3 inputs, are principally based on values obtained from a third party valuation service. At acquisition, intangible assets included $645,685 relating to a non-compete contract resulting from the acquisition and $836,215 from referral relationships. The non-compete contract is being amortized over a 10-year period using the straight-line method, starting at a future date when the related employment agreement is terminated. The referral relationships are being amortized over a 12-year period using the straight-line method. At September 30, 2013 and December 31, 2012, accumulated amortization of intangible assets was $104,526 and $52,263, respectively. Net intangible assets of $1,377,374 and $1,429,637 are categorized as prepaid expenses and other assets in the Consolidated Balance Sheets as of September 30, 2013 and December 31, 2012. In accordance with ASC 350, Intangibles—Goodwill and Other, the Company completed interim impairment testing and determined that the intangible assets assigned to United were not impaired at September 30, 2013.

In the Consolidated Statements of Income, revenues and expenses include the operations of United since April 2, 2012, which is the acquisition date. United was formed as a result of the Company's acquisition, and had no net income prior to the acquisition date.

The Company has not provided historical or pro forma financial information related to the United acquisition because none of the purchase price paid, assets acquired or income of United were significant to the Company under the SEC's Regulation S-X.

Note 11 – Accumulated Other Comprehensive Income

The following tables illustrates changes in the balances of each component of accumulated other comprehensive income, net of tax, for the periods ended September 30, 2013 and 2012:

| Three Months Ended September 30, 2013 | Unrealized Gains and Losses On Available-for-Sale Securities | Postretirement Benefits Plans | Total |
|---|---|---|---|
| Beginning balance at July 1 | $9,361,879 | $(100,878) | $9,261,001 |
| Other comprehensive income before reclassifications | 730,005 | — | 730,005 |
| Amounts reclassified from accumulated other comprehensive income | (172,363) | 778 | (171,585) |
| Net current-period other comprehensive income | 557,642 | 778 | 558,420 |
| Ending balance | $9,919,521 | $(100,100) | $9,819,421 |

| Three Months Ended September 30, 2012 | Unrealized Gains and Losses On Available-for-Sale Securities | Postretirement Benefits Plans | Total |
|---|---|---|---|
| Beginning balance at July 1 | $8,398,867 | $(51,051) | $8,347,816 |
| Other comprehensive income before reclassifications | 1,405,803 | — | 1,405,803 |
| Amounts reclassified from accumulated other comprehensive income | (65,214) | 1,662 | (63,552) |
| Net current-period other comprehensive income | 1,340,589 | 1,662 | 1,342,251 |
| Ending balance | $9,739,456 | $(49,389) | $9,690,067 |

| Nine Months Ended September 30, 2013 | Unrealized Gains and Losses On Available-for-Sale Securities | Postretirement Benefits Plans | Total |
|---|---|---|---|
| Beginning balance at January 1 | $8,920,883 | $(102,453) | $8,818,430 |
| Other comprehensive income before reclassifications | 1,219,153 | — | 1,219,153 |
| Amounts reclassified from accumulated other comprehensive income | (220,515) | 2,353 | (218,162) |
| Net current-period other comprehensive income | 998,638 | 2,353 | 1,000,991 |
| Ending balance | $9,919,521 | $(100,100) | $9,819,421 |

| Nine Months Ended September 30, 2012 | Unrealized Gains and Losses On Available-for-Sale Securities | Postretirement Benefits Plans | Total |
|---|---|---|---|
| Beginning balance at January 1 | $7,563,541 | $(54,376) | $7,509,165 |
| Other comprehensive income before reclassifications | 2,404,087 | — | 2,404,087 |

| | | | |
|---|---|---|---|
| Amounts reclassified from accumulated other comprehensive income | (228,172 ) | 4,987 | (223,185 ) |
| Net current-period other comprehensive income | 2,175,915 | 4,987 | 2,180,902 |
| Ending balance | $9,739,456 | $(49,389 ) | $9,690,067 |

The following tables provides significant amounts reclassified out of each component of accumulated other comprehensive income for the periods ended September 30, 2013 and 2012:

Three Months Ended September 30, 2013

| 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 gain on investment | $261,938 | | |
| Other-than-temporary impairments | — | | |
| Total | $261,938 | | Net realized gain on investment |
| Tax | (89,575 | ) | Provision for Income Taxes |
| Net of Tax | $172,363 | | |
| Accretion (amortization) related to postretirement benefit plans: | | | |
| Prior year service cost | $380 | | |
| Unrecognized loss | (1,573 | ) | |
| Total | $(1,193 | ) | (a) |
| Tax | 415 | | Provision for Income Taxes |
| Net of Tax | $(778 | ) | |
| Reclassifications for the period | $171,585 | | |

Three Months Ended September 30, 2012

| 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 gain on investment | $99,790 | | |
| Other-than-temporary impairments | — | | |
| Total | $99,790 | | Net realized gain on investment |
| Tax | (34,576 | ) | Provision for Income Taxes |
| Net of Tax | $65,214 | | |
| Amortization related to postretirement benefit plans: | | | |
| Prior year service cost | $(2,349 | ) | |
| Unrecognized loss | (171 | ) | |
| Total | $(2,520 | ) | (a) |
| Tax | 858 | | Provision for Income Taxes |
| Net of Tax | $(1,662 | ) | |
| Reclassifications for the period | $63,552 | | |

Nine Months Ended September 30, 2013

| 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 gain on investment | $367,624 | | |
| Other-than-temporary impairments | (34,070 | ) | |
| Total | $333,554 | | Net realized gain on investment |
| Tax | (113,039 | ) | Provision for Income Taxes |
| Net of Tax | $220,515 | | |
| Accretion (amortization) related to postretirement benefit plans: | | | |
| Prior year service cost | $1,139 | | |
| Unrecognized loss | (4,720 | ) | |
| Total | $(3,581 | ) | (a) |
| Tax | 1,228 | | Provision for Income Taxes |
| Net of Tax | $(2,353 | ) | |
| Reclassifications for the period | $218,162 | | |

Nine Months Ended September 30, 2012

| 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 gain on investment | $434,358 | | |
| Other-than-temporary impairments | (76,539 | ) | |
| Total | $357,819 | | Net realized gain on investment |
| Tax | (129,647 | ) | Provision for Income Taxes |
| Net of Tax | $228,172 | | |
| Amortization related to postretirement benefit plans: | | | |
| Prior year service cost | $(7,047 | ) | |
| Unrecognized loss | (511 | ) | |
| Total | $(7,558 | ) | (a) |
| Tax | 2,571 | | Provision for Income Taxes |
| Net of Tax | $(4,987 | ) | |
| Reclassifications for the period | $223,185 | | |

(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 salaries, employee benefits and payroll taxes on the Consolidated Statements of Income as amortized. Amortization related to postretirement benefit plans is included in the computation of net periodic pension costs, as discussed in Note 5.

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

The Company's 2012 Annual Report on Form l0-K should be read in conjunction with the following discussion since it contains important information 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"). Revenues from the title segment accounted for 96.3% of the Company's insurance and other services revenues in the first nine months of 2013. 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.

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

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

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

Volume is a factor in the Company's profitability due to fixed operating costs which are incurred by the Company regardless of 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 sales, mortgage financing and mortgage refinancing. In turn, 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 cyclical nature of the residential and commercial real estate markets, and consequently, the land title industry, has historically caused fluctuations in revenues and profitability, and it is expected to continue to do so in the future. Additionally, there are seasonal influences in real estate activity and accordingly in revenue levels for title insurers.

Services other than title insurance provided by operating divisions of the Company that are not required to be reported separately are reported 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"), Investors Capital Management Company ("ICMC") and Investors Title Management Services, Inc. ("ITMS").

The Company's exchange services division, ITEC and ITAC, provides customer services in connection with tax-deferred real property exchanges. ITEC serves as a qualified intermediary in like-kind exchanges of real or personal property under Section 1031 of the Internal Revenue Code of 1986, as amended. In its role as qualified intermediary, ITEC coordinates the exchange aspects of the real estate transaction, and its duties include drafting standard exchange documents, holding the exchange funds between the sale of the old property and the purchase of the new property, and accepting the formal identification of the replacement property within the required identification period. ITAC serves as exchange accommodation titleholder in reverse exchanges. An exchange accommodation offers a vehicle for accommodating a reverse exchange when the taxpayer must acquire replacement property before selling the relinquished property.

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

Business Trends and Recent Conditions

Beginning in 2008, the United States economy experienced one of the worst economic downturns in history. Events leading to the recession were primarily the collapse of the housing market and frozen credit markets, prompting the federal government to take unprecedented monetary and fiscal action in an attempt to slow the economic rate of decline and instill consumer confidence. The economy has been slowly recovering from this downturn with the Dow Jones Industrial Average closing and remaining near an all-time high, housing values rebounding and the unemployment rate lowering. However, in October 2013, the United States government experienced a 16-day partial shutdown. Included in the temporary closing of governmental agencies was the Federal Housing Administration ("FHA"), slowing the loan approval process for some low-to-moderate income and first-time home buyers. A temporary funding measure was approved that will fund the government through January 15, 2014 and lift the debt limit through February 7, 2014. Further government shutdowns could have an adverse impact on the economy and the housing market.

The Mortgage Bankers Association's ("MBA") September 23, 2013 Mortgage Finance Forecast (the “MBA Forecast”) projects 2013 mortgage originations to decrease 8.3% from 2012 levels to $1,605 billion, with purchasing activity increasing 22.5% to $616 billion and refinancing activity decreasing 20.7% to $989 billion. In 2012, refinancing activity accounted for 71.3% of all mortgage originations and is projected to represent 61.6% of mortgage originations in 2013.

According to data published by Freddie Mac, the average 30-year fixed mortgage interest rate in the United States was 3.88% and 3.75% for the nine months ended September 30, 2013 and 2012, respectively. According to the MBA Forecast, refinancing is expected to decline through the remainder of 2013 as interest rates climb to a projected 4.8% in the fourth quarter of 2013.

In September 2012, the Federal Reserve (the "Fed") announced Quantitative Easing, “QE 3,” in which it will purchase mortgage backed securities at a rate of $40 billion per month and longer-term Treasury securities at a rate of $45 billion per month. In June 2013, Federal Reserve Chairman Bernanke indicated that the level of asset purchases in the months ahead may vary in response to changing economic conditions. However, after the September 2013 meeting, the Fed refrained from slowing the level of asset purchases noting concerns with higher interest rates, tighter financial conditions and uncertainty related to federal lawmakers' ability to pass a budget and raise the debt ceiling. There is no stated end date associated with this round of Quantitative Easing and the program will continue as deemed necessary by the Federal Reserve. The Federal Open Market Committee (“FOMC”) of the Federal Reserve is also issuing disclosures on a periodic basis that include projections of the federal funds rate and expected actions. The FOMC has stated that they intend to keep the federal funds rate exceptionally low, between 0% and 0.25%, until targets of 6.5% for unemployment and 2.5% for inflation are reached.

The September 2013 Economic and Mortgage Finance Commentary (the “MBA Commentary,”) predicts that 2013 will experience relative growth compared to 2012 due to stronger home sales and increases in housing starts, as well as a continuation of recent trends of lower unemployment and real higher gross domestic product.