

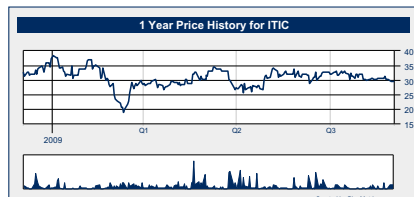


Company Update
Estimates Change
Price Target Change

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Market Price:	\$34.90
Target Price:	\$35.00
Proj. Total Return:	1.1%
52 Wk. Range	\$35.86-\$17.14
Yield:	0.80%
Shr.O/S-Diluted (mm):	2.4
Insider Ownership:	27.9%
Market Cap:	\$83.8mm
Book Value/Share:	\$42.49
Price/Book:	0.82
Debt/Cap:	0.0%
% EPS Title:	NA
BV ec. AOCI:	\$40.43
Title PT Margin:	1.2
Title L/R:	13.8
Title Op. Exp Ratio:	NA
Title Fee/File:	NA



Company Description:

Based in Chapel Hill, NC, Investors Title is a regional title insurance, escrow, and real estate services provider.

Industry Opinion:

We expect declining volumes in the overall mortgage origination market to weigh on business in the title and real estate services markets, with commercial business and a higher mix of purchase market transactions partially offsetting the reduced transaction volume.

Title Insurers

February 18, 2010

Investors Title Company
(ITIC, \$34.90, Market Perform, Target: \$35.00)

Revising ITIC Estimates Following Weaker Than Expected 4Q09 Earnings

Event--

ROCK: [\$0.14, \$0.14, \$0.34, \$0.34] ITIC reported 4Q09 operating EPS of \$0.14. Against our model, lower direct premium and higher personnel expenses were somewhat offset by an unexpected tax benefit in the quarter. As a result, we lower our 2010 EPS estimate to \$1.57 from \$1.90 and introduce a 2011 estimate of \$1.71. Our rating is Market Perform and price target moves to \$35 from \$36.

R \$0.14 reported **O** \$0.14 operating **C** \$0.34 consensus **K** \$0.34 BW

	Earnings Per Share (\$)			P/E (x)		%Chg.	L/Term
Year End Dec	2009A	2010E	2011E	10E	11E	11/10	Grth. Rate(%)
KBW (Curr.)	2.10	1.57	1.71	22.2	20.4	8.92	4.0
KBW (Prev.)	2.31	1.90	—	18.37	—	(10.00)	4.0
FC (Cons.)	—	2.31	1.90	15.11	18.37	(17.75)	NA

	2009	2010	2011
Revenue (Net)	71.3	60.4	64.6
Margin (Net)	8.30	7.60	7.80
Book Value	42.49	43.78	45.21
ROE	5.3%	3.8%	4.0%

Quarterly Earnings Per Share (\$)					
	Q1	Q2	Q3	Q4	YR
2009A	0.62	0.92	0.42	0.14	2.10
2010E	0.34	0.39	0.44	0.40	1.57
2011E	—	—	—	—	1.71

Quarter Review - Title premiums were \$12.6 mil., up 1.3% yoy, but below our est. of \$13.0 mil. Direct rev. were \$4.1 mil., down 6.1%, and agency rev. were \$8.5 mil., up 5.3%, vs.our est's of \$4.5 mil. and \$8.4 mil., respectively. Investment income was \$921,000, down 15.3% but above our est. of \$906,000. Overall rev. were \$14.6 mil., up 18.9% yoy, as other operating rev. were much better than expected at \$1.2 mil. Personnel expenses were much higher than expected at \$4.3 mil., up 22.1% yoy, while the loss ratio remains elevated at 13.8%, but roughly in-line with our expectation for 13.5%. Finally, the company received a \$133,000 tax benefit in the qtr vs.our expectation for a tax expense of \$223,000.

Investment Opinion – We are less concerned with the lower direct business, as premiums for a smaller, regional title insurer can certainly be tough to project in the current environment. Instead, the higher operating expenses, both personnel and other, is a much larger issue for us since we would have expected a sequential decline given both seasonal and secular trends. While it could be just a matter of timing, with next quarter's results showing greater cost containment progress, the increase in expenses was unexpected at this time. Therefore, given greater uncertainty on margins as we enter 2010 and limited pot'l upside to our price tgt (approx. 1.1% total return potential), we are maintaining our MP rating.

* Please see PDF version of this report for our delta chart.



Risk

Risks to our price target include the following:

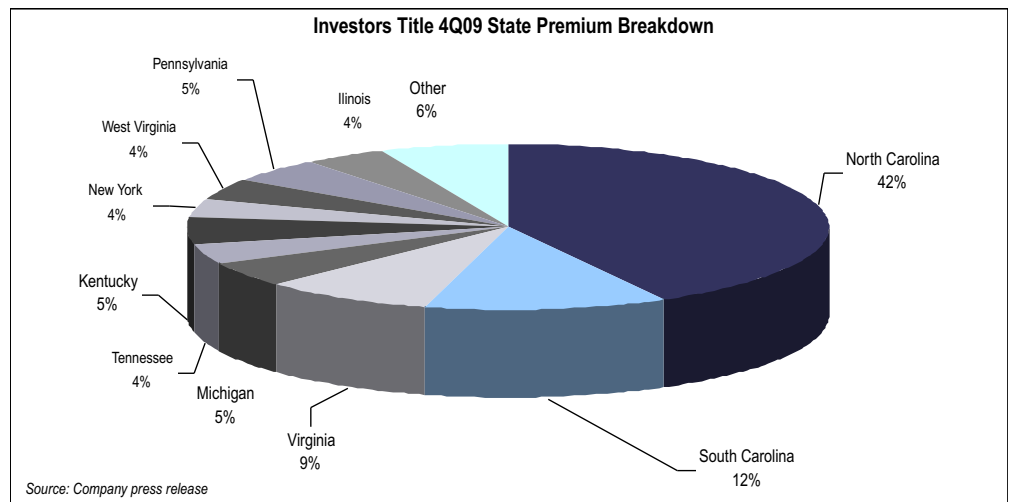
- The slowdown in real estate volumes materially exceeds expectations.
- Management is unable to control expenses as well as anticipated through the interest rate cycle change.

Estimates/Price Target - We are lowering our full-year 2010 operating EPS estimate to \$1.57 from \$1.90 on higher run-rate expense expectations going forward. We are also introducing a 2011 EPS estimate of \$1.71. Our price target drops to \$35 from \$36, reflecting a 0.8x multiple on our year-end 2010 book value.

KBW Investors Title (ITIC) Price Target Calculation						
	2010 Est.	2010 Est.	P/E	P/B	Market	Value
	Earnings	Equity	Multiple	Multiple	Value	Per Share
Title insurance	3,585	100,203	22.4x	0.8x	80,162	\$35.02
					Price Target	\$35.00
STC 2010 avg. shares	2,289					
Common dividend	\$0.28			Upside from current share level		0.3%
Current share price	\$34.90			Dividend		\$0.28
				Potential Total Return		1.1%

Source: KBW estimates.

Geographic Breakdown - Premiums from North Carolina represented 42% of net premiums, South Carolina represented 12%, Virginia represented 9% and Michigan represented 5%. Combined, the first three states accounted for 63% of all premiums written by the company.





	R: \$0.14		O: \$0.14		C: \$0.34		K: \$0.34	
Investors Title 4Q09	This Quarter	KBW	EPS. Diff.	Prior Quarter	Prior Year	Growth Rates		
						Seq.	Y/Y	KBW Y/Y Est.
ITIC Operating EPS	\$0.14	\$0.34	(\$0.21)	\$0.42	(\$1.72)	-68.0%	-107.8%	-120.0%
Revenues								
Direct title premiums	4,094	4,540	(\$0.34)	4,681	4,360	-12.5%	-6.1%	4.1%
Agency title premiums	8,457	8,432	\$0.02	9,602	8,029	-11.9%	5.3%	5.0%
Total title premiums	12,550	12,972	(\$0.32)	14,283	12,389	-12.1%	1.3%	4.7%
Investment income	921	906	\$0.01	912	1,087	1.0%	-15.3%	-16.7%
Investment gains/(losses)	-97	0	(\$0.07)	-111	-2,253	-12.3%	-95.7%	-100.0%
Exchange services	110	195	(\$0.06)	176	152	-37.2%	-27.3%	28.3%
Other Operating	1,158	947	\$0.16	1,103	938	5.0%	23.4%	1.0%
Total revenues	14,643	15,020	(\$0.29)	16,363	12,313	-10.5%	18.9%	22.0%
Overall expenses								
Agent commissions	6,052	6,046	(\$0.00)	6,838	5,741	-11.5%	5.4%	5.3%
Title Losses	1,732	1,751	\$0.01	1,934	6,877	-10.5%	-74.8%	-74.5%
Salary & employee benefits	4,326	4,041	(\$0.22)	4,196	3,542	3.1%	22.1%	14.1%
Office operations	1,041	953	(\$0.07)	986	1,267	5.6%	-17.8%	-24.8%
Business development	470	318	(\$0.12)	336	482	39.8%	-2.5%	-34.0%
Other taxes	25	182	\$0.12	205	163	-88.0%	-84.9%	11.7%
Premium and retailatory taxes	255	263	\$0.01	270	252	-5.5%	1.3%	4.4%
Professional fees	380	272	(\$0.08)	331	289	14.7%	31.4%	-5.9%
Other	185	182	(\$0.00)	174	245	6.6%	-24.3%	-25.7%
Non-recurring	0	0	\$0.00	0	0	#DIV/0!	#DIV/0!	
Title expenses	14,466	14,008	(\$0.35)	15,270	18,858	-5.3%	-23.3%	-25.7%
Income								
Total pre-tax income	176	1,012	(\$0.64)	1,093	-6,545	-83.9%	-102.7%	-115.5%
Income tax	-133	223	\$0.01	123	-2,596			
Operating tax rate	-75.4%	22.0%	\$0.08	11.3%	39.7%			
Overall tax rate	-75.4%	22.0%		11.3%	39.7%			
Net income	309	789		970	-3,949	-68.1%	-107.8%	-120.0%
One-time benefit/(expense) (after-tax)	0	0	\$0.00	0	0			
Operating income	309	789	(\$0.21)	970	-3,949	-68.1%	-107.8%	-120.0%
Title operating ratios								
Overall company pre-tax margin (inc. inv & other)	1.2%	6.7%		6.7%	-53.2%			
Agency as % of title premium	67.4%	65.0%		67.2%	64.8%			
Direct as % of title premium	32.6%	35.0%		32.8%	35.2%			
Personnel expenses as % of direct	105.7%	89.0%		89.6%	81.2%			
Operating expenses as % of direct	57.5%	47.8%		49.2%	61.9%			
Agent retention	71.6%	71.7%		71.2%	71.5%			
Loss ratio	13.8%	13.5%		13.5%	55.5%			
Expense ratio	101.5%	94.5%		93.4%	96.7%			
Other								
Book value (est.)	\$42.49	\$42.73		\$42.46	\$39.19	0.1%	8.4%	9.0%
Book value ex. AOCI (est.)	\$40.43	\$40.51		\$40.24	\$38.48	0.5%	5.1%	5.3%
Diluted shares outstanding - thousands	2,289	2,296	\$0.00	2,296	2,293			

Source: KBW calculations and company press release
\$ thousands, except per share calculations



IMPORTANT DISCLOSURES

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We, Nathaniel Otis and William Clark, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject company and its securities. We also certify that we have not been, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation in this report.

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KBW currently makes a market in this security ITIC.

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Investors Title Company (ITIC)

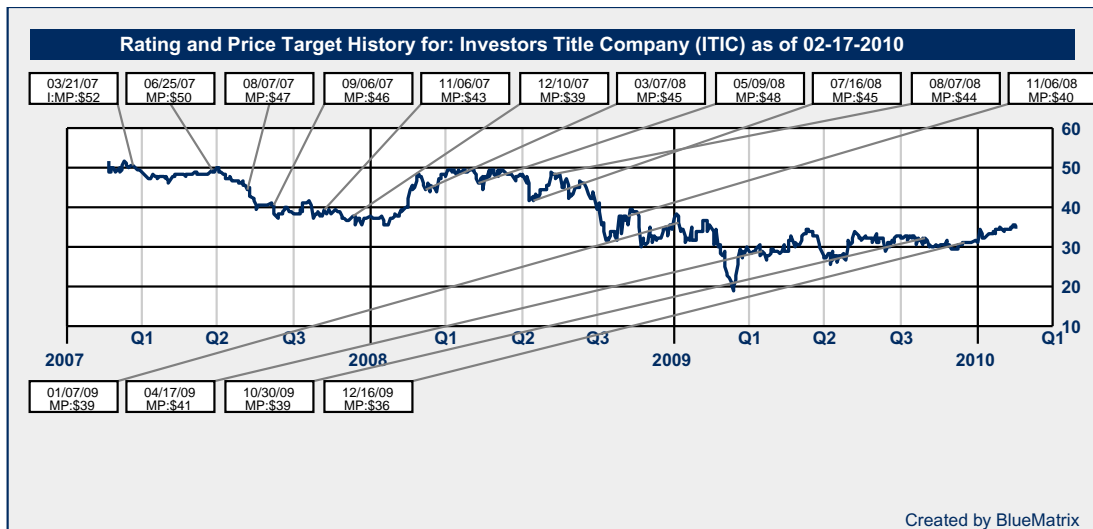
Target Price: \$35.00

Risk Factors:

Risks to our price target include the following:

- The slowdown in real estate volumes materially exceeds expectations.
- Management is unable to control expenses as well as anticipated through the interest rate cycle change.

RATING AND PRICE TARGET HISTORY



Rating KEY: OP – Outperform MP – MarketPerform U – Underperform RS – Restricted S – Suspended Note: The boxes on the Rating and Price Target History Chart above indicate the date of Report/Note, the rating and price target. Each box represents a date on which an analyst made a change to a rating or price target.

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KBW**

Rating	Count	Percent	*IB Serv./Past 12 Mos.	
			Count	Percent
Outperform [BUY]	154	28.41	46	29.87
Market Perform [HOLD]	326	60.15	78	23.93
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Restricted [RES]	0	0.00	0	0.00
Suspended [SP]	22	4.06	4	18.18

*Keefe, Bruyette & Woods, Inc. and Keefe, Bruyette and Woods Limited maintain separate research departments; however, the following chart, "Distribution of Ratings/IB Services," reflects combined U.S. and U.K. information related to the distribution of research ratings and the receipt of investment banking



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<u>KBW Core Ratings</u>	<u>Regulatory Categories(FINRA / NYSE)</u>	<u>Represented Total Rates of Return</u>
OUTPERFORM	BUY	15% or greater
MARKET PERFORM	HOLD	in a range between -5% and +15%
UNDERPERFORM	SELL	at or below -5%

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