

INVESTORS TITLE CO  
Form DEF 14A  
April 17, 2007

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

**SCHEDULE 14A**

**INFORMATION REQUIRED IN PROXY STATEMENT  
SCHEDULE 14A INFORMATION**

Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No. )

Filed by the Registrant  x  
Filed by a Party other than the Registrant  o

Check the appropriate box:

- o Preliminary Proxy Statement
- o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- x Definitive Proxy Statement
- o Definitive Additional Materials
- o Soliciting Material Pursuant to Rule 14a-12

**Investors Title Company**

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(Name of Registrant as Specified in Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- x No fee required
- o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies: N/A

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(2) Aggregate number of securities to which transaction applies: N/A

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined): N/A

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(4) Proposed maximum aggregate value of transaction: N/A

(5) Total fee paid: N/A

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o Fee paid previously with preliminary materials: N/A

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o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount Previously Paid: N/A

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(2) Form, Schedule or Registration Statement No.: N/A

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(3) Filing Party: N/A

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(4) Date Filed: N/A

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121 North Columbia Street, Chapel Hill, North Carolina 27514  
(919) 968-2200

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April 16, 2007

Dear Shareholders:

You are cordially invited to attend the Annual Meeting of Shareholders of Investors Title Company to be held at The Siena Hotel, 1505 East Franklin Street, Chapel Hill, North Carolina on Wednesday, May 16, 2007 at 11:00 a.m. EDT.

The Annual Meeting will begin with a review of the activities of the Company for the past year and a report on current operations during the first quarter of 2007, followed by discussion and voting on the matters set forth in the accompanying Notice of Annual Meeting and Proxy Statement.

**The Board of Directors of the Company unanimously recommends that you vote FOR the election of the directors nominated to serve until the Annual Meeting of Shareholders in 2010.**

I urge you to review the Proxy Statement, sign and date the enclosed proxy card, and return it promptly in the enclosed postage-paid envelope.

Cordially,

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J. Allen Fine  
Chief Executive Officer

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121 North Columbia Street, Chapel Hill, North Carolina 27514  
(919) 968-2200

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**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS  
TO BE HELD ON MAY 16, 2007**

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The Annual Meeting of the Shareholders of Investors Title Company will be held at The Siena Hotel, 1505 East Franklin Street, Chapel Hill, North Carolina, on Wednesday, May 16, 2007 at 11:00 a.m. EDT, for the following purposes:

- (1) To elect three directors for three-year terms or until their successors are elected and qualified; and
- (2) To consider any other business that may properly come before the meeting.

Shareholders of record of Common Stock of the Company at the close of business on April 3, 2007 are entitled to notice of and to vote at the meeting and any adjournments thereof.

By Order of the Board of Directors:

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W. Morris Fine  
Secretary

**IMPORTANT - Your proxy card is enclosed. You can vote your shares by completing and returning your proxy card in the enclosed postage-paid envelope. Whether or not you expect to be present at the meeting, please review the Proxy Statement and promptly vote in order to assist the Company in keeping down the expenses of the meeting. You can revoke your proxy at any time prior to its exercise at the meeting by following the instructions in the accompanying Proxy Statement.**

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## TABLE OF CONTENTS

|  | Page |
|--|------|
| <b>GENERAL INFORMATION</b>   | 1    |
| Proxy Solicitation by the Board of Directors                               | 1    |
| Submitting and Revoking a Proxy  | 1    |
| Voting Securities  | 1    |
| Annual Report to Shareholders  | 1    |
| Electronic Delivery of Proxy Materials                                     | 2    |
| Section 16(a) Beneficial Ownership Reporting Compliance                    | 2    |
| General Information  | 2    |
| <b>CORPORATE GOVERNANCE</b>  | 2    |
| Code of Business Conduct and Ethics  | 2    |
| Shareholder Communications with Directors                                  | 2    |
| Independent Directors  | 3    |
| Executive Sessions   | 3    |
| Compensation Committee Interlocks and Insider Participation                | 3    |
| Board of Directors and Committees  | 3    |
| <b>COMPENSATION OF DIRECTORS</b>   | 5    |
| <b>STOCK OWNERSHIP OF EXECUTIVE OFFICERS AND CERTAIN BENEFICIAL OWNERS</b> | 7    |
| <b>PROPOSAL REQUIRING YOUR VOTE</b>  | 9    |
| <b>Election of Directors</b>   | 9    |
| Information Regarding Nominees for Election as Directors                   | 10   |
| Information Regarding Directors Continuing in Office                       | 10   |
| <b>INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</b>                       | 12   |
| Audit and Non-Audit Fees   | 12   |
| Audit and Non-Audit Services Pre-Approval Policy                           | 12   |
| <b>AUDIT COMMITTEE REPORT</b>  | 13   |
| <b>COMPENSATION COMMITTEE REPORT</b>                                       | 14   |
| <b>EXECUTIVE COMPENSATION</b>  | 14   |
| <b>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS</b>                      | 28   |
| <b>SHAREHOLDER PROPOSALS FOR 2008 ANNUAL MEETING</b>                       | 29   |

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**PROXY STATEMENT**

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**ANNUAL MEETING OF SHAREHOLDERS OF  
INVESTORS TITLE COMPANY  
To Be Held on May 16, 2007**

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This Proxy Statement is furnished in connection with the solicitation by the Board of Directors of Investors Title Company of proxies to be voted at the Annual Shareholders' Meeting to be held at The Siena Hotel, 1505 East Franklin Street, Chapel Hill, North Carolina, on May 16, 2007 at 11:00 a.m. EDT, and at all adjournments thereof. Shareholders of record at the close of business on April 3, 2007 are entitled to notice of and to vote at the meeting and any adjournments thereof.

**GENERAL INFORMATION**

**Proxy Solicitation by the Board of Directors.** The solicitation of proxies is made on behalf of the Company's Board of Directors and will be made either by mail or, as described below, by electronic delivery. The cost of solicitation of proxies will be borne by the Company. Copies of proxy materials and the Annual Report for 2006 will be provided to brokers, dealers, banks and voting trustees or their nominees for the purpose of soliciting proxies from the beneficial owners, and the Company will reimburse these record holders for their out-of-pocket expenses.

**Submitting and Revoking a Proxy.** If you complete and submit your proxy, the persons named as proxies will vote the shares represented by your proxy in accordance with your instructions. If you submit a proxy card but do not fill out the voting instructions on the proxy card, the persons named as proxies will vote the shares represented by your proxy **FOR** the election of the director nominees set forth herein. In addition, if other matters are properly presented for voting at the meeting, the persons named as proxies will vote on such matters in accordance with their best judgment. The Company has not received notice of other matters that may be properly presented for voting at the meeting.

To ensure that your vote is recorded properly, please vote your shares as soon as possible, even if you plan to attend the meeting in person. Each proxy executed and returned by a shareholder may be revoked at any time thereafter except as to any matter or matters upon which, prior to such revocation, a vote shall have been cast pursuant to the authority conferred by such proxy. Shareholders with shares registered directly in their names may revoke their proxy by (1) sending written notice of revocation to the Corporate Secretary, P.O. Box 2687, Chapel Hill, North Carolina 27515-2687, (2) submitting a subsequent proxy or (3) voting in person at the meeting. Attendance at the meeting will not by itself revoke a proxy. A shareholder wishing to change his or her vote who holds shares through a bank, brokerage firm or other nominee must contact the record holder.

**Voting Securities.** On April 3, 2007, the Company had a total of 2,778,028 shares of Common Stock outstanding, its only class of issued and outstanding capital stock. Of these shares, 2,486,352 shares are entitled to one vote per share and 291,676 shares are held by a subsidiary of the Company and, pursuant to North Carolina law, are not entitled to vote. A majority of the shares entitled to vote at the meeting, represented at the meeting in person or by proxy, will constitute a quorum.

**Annual Report to Shareholders.** An Annual Report of the Company for the calendar year 2006 including financial statements and the independent registered public accounting firms' opinions, along with the Notice of Annual Meeting,

Proxy Statement and proxy card, are being first mailed to the Company's shareholders on or about April 16, 2007.

**Electronic Delivery of Proxy Materials.** The Notice of Annual Meeting and Proxy Statement and the Company's 2006 Annual Report (the "Proxy Materials") are available online to certain shareholders that have arranged through their broker to receive the Proxy Materials electronically. Shareholders that hold their shares in a brokerage account may have the opportunity to receive future Proxy Materials electronically. Please contact your broker for information regarding the availability of this service.

**Section 16(a) Beneficial Ownership Reporting Compliance.** Section 16(a) of the Securities Exchange Act of 1934 requires directors, executive officers and all persons who beneficially own more than 10% of the Company's securities to file reports with the Securities and Exchange Commission with respect to beneficial ownership of Company securities. Based solely upon a review of copies of the filings that the Company received with respect to the fiscal year ended December 31, 2006, or written representations from certain reporting persons, the Company believes that all reporting persons filed all reports required by Section 16(a) in a timely manner.

**General Information.** A copy of the Company's 2006 Annual Report and Form 10-K filed with the Securities and Exchange Commission, excluding exhibits, can be obtained without charge by contacting Investor Relations at [investorrelations@invtitle.com](mailto:investorrelations@invtitle.com) or P.O. Box 2687, Chapel Hill, North Carolina 27515-2687.

## CORPORATE GOVERNANCE

### Code of Business Conduct and Ethics

The Company has a Code of Business Conduct and Ethics that is applicable to all of the Company's employees, officers and directors, including its Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer. This Code addresses a variety of issues, including conflicts of interest, the protection of confidential information, insider trading, and employment practices. It also requires strict compliance with all laws, rules and regulations governing the conduct of the Company's business.

The Code of Business Conduct and Ethics is posted in the Corporate Governance area of the Investor Relations section of the Company's website at [www.invtitle.com](http://www.invtitle.com). The Company intends to disclose future amendments to or waivers from the Code of Business Conduct and Ethics on its website within two business days after such amendment or waiver.

### Shareholder Communications with Directors

Shareholders can communicate with members of the Company's Board of Directors in one of two ways. Shareholders may mail correspondence to the attention of the Corporate Secretary, P.O. Box 2687, Chapel Hill, North Carolina 27515-2687. Any correspondence sent via mail should clearly indicate that it is a communication intended for the Board of Directors. Shareholders may also use electronic mail to contact the Board of Directors at [boardofdirectors@invtitle.com](mailto:boardofdirectors@invtitle.com). The Corporate Secretary regularly monitors this email account. Any communication that is intended for a particular Board member or committee should clearly state the intended recipient.

The Corporate Secretary will review all communications sent to the Board of Directors via mail and email and will forward all communications concerning Company or Board matters to the Board members within five business days of receipt. If a communication is directed to a particular Board member or committee, it will be passed on only to that member or the members of that committee. Otherwise, relevant communications will be forwarded to all Board members.





### **Independent Directors**

The Board of Directors has determined that the following directors are independent directors within the meaning of the applicable listing standards of The NASDAQ Stock Market LLC (“NASDAQ”) and the Company’s Board of Directors Independence Standards: Mr. David L. Francis, Mr. Loren B. Harrell, Jr., Mr. R. Horace Johnson, Mr. H. Joe King, Jr., Mr. James R. Morton and Mr. A. Scott Parker III. The Board of Directors Independence Standards can be found in the Investor Relations section of the Company’s website at [www.invtitle.com](http://www.invtitle.com) under the heading “Corporate Governance.”

### **Executive Sessions**

Executive sessions that include only the independent members of the Board of Directors are held regularly.

### **Compensation Committee Interlocks and Insider Participation**

In 2006, Mr. Harrell, Mr. Morton and Mr. Parker served as the members of the Compensation Committee. None of these directors have ever been officers or employees of the Company or any of its subsidiaries. During 2006, none of the executive officers of the Company served on the compensation committee (or equivalent), or the board of directors, of another entity whose executive officer(s) served on the Board of Directors of the Company or its Compensation Committee.

### **Board of Directors and Committees**

During the year ended December 31, 2006, the Board of Directors held four meetings. All incumbent directors and nominees attended 75% or more of the aggregate number of meetings of the Board of Directors and committees of the Board on which they served. The Company expects each of its directors to attend the Annual Meeting of Shareholders unless an emergency prevents them from attending. All of the Board members were present at the 2006 Annual Meeting with the exception of Loren B. Harrell, Jr.

The Company’s Board of Directors has a standing Audit Committee, Compensation Committee, and Nominating Committee.

**The Audit Committee.** In 2006 the Audit Committee was composed of Mr. Francis, Mr. Johnson and Mr. King. The Audit Committee met nine times in 2006.

The Audit Committee is directly responsible for overseeing the Company’s accounting and financial reporting processes and appointing, retaining, compensating and overseeing the Company’s independent registered public accounting firm and reviewing the scope of the annual audit proposed by the independent registered public accounting firm. In addition, the Committee reviews and approves all related party transactions and periodically consults with the independent registered public accounting firm on matters relating to internal financial controls and procedures. The Committee is responsible for establishing and administering complaint procedures related to accounting and auditing matters.

The Audit Committee operates under a written charter adopted by the Board of Directors, a copy of which is posted under the Committee heading of the Corporate Governance area of the Investor Relations section of the Company’s website at [www.invtitle.com](http://www.invtitle.com). The Audit Committee reviews and assesses the adequacy of the charter on an annual basis.



The Board of Directors has determined that each member of the Company's Audit Committee is "independent" as defined under applicable NASDAQ listing standards and SEC rules. The Board of Directors has also determined that all of the current Audit Committee members—Mr. Francis, Mr. Johnson and Mr. King—are "audit committee financial experts" as defined under applicable SEC rules. See "*Audit Committee Report*" below for the formal report of the Audit Committee for 2006.

***The Compensation Committee.*** In 2006, the Compensation Committee was composed of Mr. Harrell, Mr. Morton and Mr. Parker. The Compensation Committee met two times in 2006. The Board of Directors has determined that each member of the Compensation Committee is "independent" as defined under applicable NASDAQ listing standards.

The Compensation Committee operates under a written charter that can be found under the Committee heading of the Corporate Governance area of the Investor Relations section of the Company's website at [www.invtitle.com](http://www.invtitle.com).

The Compensation Committee determines, or recommends to the Board of Directors for determination and for payment by the Company's wholly owned subsidiary, Investors Title Insurance Company, salaries, bonuses and other compensation of executive officers. The Committee also serves as the Option Committee of the Board of Directors, which reviews, approves and administers the Company's stock option plans. For additional information regarding the Company's processes and procedures for the consideration and determination of director and executive officer compensation, see "*Compensation of Directors*" and "*Executive Compensation - Compensation Discussion and Analysis - Determining Executive Compensation*" below.

See "*Compensation Committee Report*" below for the formal report of the Compensation Committee for 2006.

***The Nominating Committee.*** In 2006, the Nominating Committee was composed of Mr. Francis, Mr. Harrell and Mr. Parker. The Nominating Committee met two times in 2006.

The Nominating Committee operates under a written charter that can be found under the Committee heading of the Corporate Governance area of the Investor Relations section of the Company's website at [www.invtitle.com](http://www.invtitle.com).

The Board of Directors has determined that each member of the Company's Nominating Committee is "independent" as defined under applicable NASDAQ listing standards.

The Nominating Committee is responsible for identifying, evaluating and recommending to the Board of Directors candidates for election to the Board of Directors as well as appointing members to the Audit and Compensation Committees. A slate of nominees for director to present to the shareholders is recommended to the Board of Directors by the Nominating Committee and determined by at least a majority vote of the members of the Board of Directors whose terms do not expire during the year in which the election of directors will occur.

The Nominating Committee considers a variety of factors before recommending a new director nominee or the continued service of existing Board members. At a minimum, the Nominating Committee believes that a director nominee must demonstrate character and integrity, have an inquiring mind, possess substantial experience at a strategy or policy setting level, demonstrate an ability to work effectively with others, possess either high-level managerial experience in a relatively complex organization or experience dealing with complex problems, have sufficient time to devote to the affairs of the Company and be free from conflicts of interest with the Company and its subsidiaries.

Other factors the Nominating Committee considers when evaluating a potential director nominee are:

1. Whether the candidate would assist in achieving a diverse mix of Board members;
2. The extent of the candidate's business experience, technical expertise, and specialized skills or experience;
3. Whether the candidate, by virtue of particular experience relevant to the Company's current or future business, will add specific value as a Board member; and
4. Any other factors related to the ability and willingness of a candidate to serve, or an incumbent director to continue his or her service to, the Company.

The Nominating Committee believes that a majority of the members of the Company's Board of Directors should be independent as defined under applicable NASDAQ listing standards and, as a result, it also considers whether a potential director nominee is independent under such standards. The Committee also requires that all members of the Audit Committee be financially literate pursuant to applicable NASDAQ listing standards and that at least one member of the Audit Committee be an "audit committee financial expert" as defined under SEC rules. Therefore, the Nominating Committee considers whether a potential director nominee meets these criteria when evaluating his or her qualifications.

It is the policy of the Nominating Committee to consider all director candidates recommended by shareholders, provided that such recommendations are made in accordance with the procedures outlined below. The Nominating Committee evaluates such candidates in accordance with the same criteria it uses to evaluate all other director candidates.

Any shareholder that wishes to recommend a director candidate to be considered for the 2008 Annual Meeting of Shareholders should send his or her recommendation to the attention of the Corporate Secretary, Investors Title Company, P.O. Box 2687, Chapel Hill, North Carolina 27515-2687, no later than December 18, 2007. The candidate's name, age, business address, residential address, principal occupation, qualifications and the number of shares of Common Stock beneficially owned by the candidate must be provided with the recommendation. The shareholder must also provide a signed consent of the candidate to serve, if elected, as a director of the Company, and shall include all other information that would be required under the rules of the SEC in the proxy statement soliciting proxies for election of the director candidate.

### **COMPENSATION OF DIRECTORS**

Directors who are not employees of the Company receive an annual retainer for Board services of \$3,000 and an attendance fee of \$1,500 for each meeting of the Board of Directors attended, in addition to actual travel expenses related to the meetings. Directors receive a \$500 fee for participating in a committee meeting provided that the committee meeting is held on a day other than the regularly scheduled board meeting date. The Audit Committee Chairperson receives an additional annual retainer of \$500. Directors who are employees of the Company are paid no fees or other remuneration for service on the Board or on any Board committee.

On May 17, 2006, the date of the Company's 2006 Annual Meeting of Shareholders, each non-employee director was granted 500 Stock Appreciation Rights ("SARs") under the Company's 2001 Stock Option and Restricted Stock Plan with an exercise price of \$43.78. Upon exercise of each SAR, a director is entitled to receive an amount (payable in shares of the Company's common stock) equal to the difference between the closing price of the Company's common stock on the business day immediately preceding the date of exercise and the exercise price. The number of shares paid on exercise is determined by dividing this amount by the closing price of the Company's common stock on the business day immediately preceding the date of exercise. These SARs vested in four quarterly installments and became exercisable, to the extent vested, as of June 30, 2006. These SARs will expire on May 17, 2013.

The Board of Directors makes all compensation decisions for the members of the Board of Directors. The Chief Executive Officer makes periodic recommendations regarding director compensation, and the Board of Directors may exercise its discretion in modifying any recommended compensation adjustments or awards to the directors.

### 2006 Director Compensation

| Name <sup>(1)</sup>   | Fees Earned or Paid In |                                  | Option Awards       | Total (\$) |
|-----------------------|------------------------|----------------------------------|---------------------|------------|
|                       | Cash (\$)              | Stock Awards (\$) <sup>(2)</sup> | (\$) <sup>(3)</sup> |            |
| David L. Francis      | 11,500                 | 6,205                            | -                   | 17,705     |
| Loren B. Harrell, Jr. | 7,500                  | 6,205                            | -                   | 13,705     |
| R. Horace Johnson     | 11,500                 | 6,205                            | -                   | 17,705     |
| H. Joe King, Jr.      | 12,000                 | 6,205                            | -                   | 18,205     |
| James R. Morton       | 9,000                  | 6,205                            | -                   | 15,205     |
| A. Scott Parker III   | 9,000                  | 6,205                            | -                   | 15,205     |

(1) J. Allen Fine, Chief Executive Officer and Chairman of the Board, James A. Fine, Jr., President, Chief Financial Officer and Treasurer, and W. Morris Fine, Executive Vice President and Secretary, are not included in this table as they are employees of the Company and do not receive compensation for their services as directors. The compensation received by Messrs. Fine, Fine, Jr. and Fine as employees of the Company is shown in the Summary Compensation Table on page 20.

(2) The amounts shown in this column indicate the dollar amount of compensation cost recognized by the Company for financial statement reporting purposes in 2006 pursuant to Financial Accounting Standards Board Statement No. 123, "Share Based Payment (revised 2004)" ("FAS 123R") for SARs granted in 2006, which comprise all outstanding awards of stock held by the directors, except for purposes of this column the Company has disregarded any estimates of forfeitures related to service-based vesting conditions. For additional information regarding the assumptions made in calculating these amounts, see Note 7 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006. For each director, the grant date fair value of SARs granted in 2006 computed in accordance with FAS 123R was \$6,981. The aggregate number of SARs outstanding at December 31, 2006 held by directors was as follows:

| Name                  | Outstanding Stock<br>Awards at Fiscal<br>Year End |
|-----------------------|---|
| David L. Francis      | 500   |
| Loren B. Harrell, Jr. | 500   |
| R. Horace Johnson     | 500   |
| H. Joe King, Jr.      | 500   |
| James R. Morton       | 500   |
| A. Scott Parker III   | 500   |

(3) The Company did not recognize any compensation cost for financial statement reporting purposes in 2006 pursuant to FAS 123R for option awards held by directors. The aggregate number of option awards outstanding at December 31, 2006 held by directors was as follows:

| Name                  | Outstanding Option<br>Awards at Fiscal<br>Year End |
|-----------------------|--|
| David L. Francis      | 4,500  |
| Loren B. Harrell, Jr. | 2,500  |
| R. Horace Johnson     | 500  |
| H. Joe King, Jr.      | 4,500  |
| James R. Morton       | 4,500  |
| A. Scott Parker III   | 4,000  |

#### STOCK OWNERSHIP OF EXECUTIVE OFFICERS AND CERTAIN BENEFICIAL OWNERS

The following table indicates the persons known to the Company to be the beneficial owners of more than five percent (5%) of the Company's outstanding Common Stock as of April 3, 2007.

| Name and Address of Beneficial Owner   | Amount and Nature of<br>Beneficial Ownership | Percent of Class<br>(1) |
|--|--|-------------------------|
| Markel Corporation<br>4521 Highwoods Parkway, Glen Allen, Virginia 23060           | 230,350(2)                                   | 9.3%                    |
| J. Allen Fine<br>121 N. Columbia Street, Chapel Hill, North Carolina<br>27514      | 196,475(3)                                   | 7.9%                    |
| W. Morris Fine<br>121 N. Columbia Street, Chapel Hill, North Carolina<br>27514     | 179,064(4)                                   | 7.2%                    |
| James A. Fine, Jr.<br>121 N. Columbia Street, Chapel Hill, North Carolina<br>27514 | 178,416(5)                                   | 7.2%                    |

(1) The percentages are calculated based on 2,486,352 shares outstanding as of April 3, 2007, which excludes 291,676 shares held by a wholly-owned subsidiary of the Company. The shares held by the subsidiary are not entitled to

vote at the Annual Shareholders' Meeting.

7

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- (2) The information included in the above table is based solely on Amendment No. 3 to Schedule 13G filed with the SEC on February 10, 2006. Of these shares, Markel Corporation has sole voting and investment power with respect to 213,300 shares and shared investment power with respect to 17,050 shares.
- (3) This includes 2,400 shares of Common Stock that Mr. Fine has the right to purchase under stock options that are presently exercisable or are exercisable within 60 days of April 3, 2007. Additionally, this includes 151,099 shares held by a limited liability company of which Mr. Fine is the manager and possesses sole voting and investment power with respect to such shares.
- (4) This includes 3,000 shares of Common Stock that Mr. Fine has the right to purchase under stock options that are presently exercisable or are exercisable within 60 days of April 3, 2007. Additionally, this includes 95,000 shares held by a limited partnership of which Mr. Fine is a general partner and shares joint voting power over such shares with James A. Fine, Jr., such shares also being reflected in James A. Fine, Jr.'s beneficially owned shares, and 4,052 shares held by family members.
- (5) This includes 3,000 shares of Common Stock that Mr. Fine has the right to purchase under stock options that are presently exercisable or are exercisable within 60 days of April 3, 2007. Additionally, this includes 95,000 shares held by a limited partnership of which Mr. Fine is a general partner and shares joint voting power over such shares with W. Morris Fine, such shares also being reflected in W. Morris Fine's beneficially owned shares, and 1,965 shares held by family members.

The table below sets forth the shares of the Company's Common Stock beneficially owned as of April 3, 2007 by each director and nominee for director, the executive officers named in the Summary Compensation Table, and all directors and executive officers as a group.

| Name of Beneficial Owner                                       | Amount and Nature of<br>Beneficial Ownership | Percent of Class<br>(1) |
|--|--|-------------------------|
| J. Allen Fine  | 196,475(2)                                   | 7.9%                    |
| W. Morris Fine   | 179,064(3)                                   | 7.2%                    |
| James A. Fine, Jr.   | 178,416(4)                                   | 7.2%                    |
| A. Scott Parker III  | 81,021(5)                                    | 3.3%                    |
| David L. Francis   | 50,166(6)                                    | 2.0%                    |
| H. Joe King, Jr.   | 22,326(7)                                    | *                       |
| James R. Morton  | 11,915(8)                                    | *                       |
| Loren B. Harrell, Jr.  | 3,000(9)                                     | *                       |
| R. Horace Johnson  | 1,100(10)                                    | *                       |
| All Directors and Executive Officers as a Group (9<br>persons) | 723,483(11)                                  | 28.73%                  |

\* Represents less than 1%

- (1) The percentages are calculated based on 2,486,352 shares outstanding as of April 3, 2007, which excludes 291,676 outstanding shares held by a subsidiary of the Company. The shares held by the subsidiary are not entitled to vote at the Annual Shareholders' Meeting.
- (2) This includes 2,400 shares of Common Stock that Mr. Fine has the right to purchase under stock options that are presently exercisable or are exercisable within 60 days of April 3, 2007. Additionally, this includes 151,099 shares held by a limited liability company of which Mr. Fine is the manager and possesses sole voting and investment power with respect to such shares.



- (3) This includes 3,000 shares of Common Stock that Mr. Fine has the right to purchase under stock options that are presently exercisable or are exercisable within 60 days of April 3, 2007. Additionally, this includes 95,000 shares held by a limited partnership of which Mr. Fine is a general partner and shares joint voting power over such shares with James A. Fine, Jr., such shares also being reflected in James A. Fine, Jr.'s beneficially owned shares, and 4,052 shares held by family members.
- (4) This includes 3,000 shares of Common Stock that Mr. Fine has the right to purchase under stock options that are presently exercisable or are exercisable within 60 days of April 3, 2007. Additionally, this includes 95,000 shares held by a limited partnership of which Mr. Fine is a general partner and shares joint voting power over such shares with W. Morris Fine, such shares also being reflected in W. Morris Fine's beneficially owned shares, and 1,965 shares held by family members.
- (5) This total includes 4,500 shares of Common Stock that Mr. Parker has the right to purchase under stock options and stock appreciation rights that are presently exercisable or are exercisable within 60 days of April 3, 2007. Additionally, this total includes 3,266 shares held by his wife.
- (6) This total includes 5,000 shares of Common Stock that Mr. Francis has the right to purchase under stock options and stock appreciation rights that are presently exercisable or are exercisable within 60 days of April 3, 2007. This total also includes 1,000 shares held by his wife.
- (7) This total includes 5,000 shares of Common Stock that Mr. King has the right to purchase under stock options and stock appreciation rights that are presently exercisable or are exercisable within 60 days of April 3, 2007. This total also includes 700 shares held by his wife.
- (8) This total includes 5,000 shares of Common Stock that Mr. Morton has the right to purchase under stock options and stock appreciation rights that are presently exercisable or are exercisable within 60 days of April 3, 2007.
- (9) This total includes 3,000 shares of Common Stock that Mr. Harrell has the right to purchase under stock options and stock appreciation rights that are presently exercisable or are exercisable within 60 days of April 3, 2007.
- (10) This total includes 1,000 shares of Common Stock that Mr. Johnson has the right to purchase under stock options and stock appreciation rights that are presently exercisable or are exercisable within 60 days of April 3, 2007.
- (11) This total includes 31,900 shares of Common Stock that all officers and directors, as a group, have the right to purchase under stock options and stock appreciation rights that are presently exercisable or are exercisable within 60 days of April 3, 2007.

## **PROPOSAL REQUIRING YOUR VOTE**

### **Election of Directors**

The Company's Board of Directors is composed of 9 members divided into three classes with staggered terms of three years for each class. Based on the recommendations of the Nominating Committee, the Board of Directors has nominated J. Allen Fine, David L. Francis and A. Scott Parker III for re-election to serve for a three-year period or until their respective successors have been elected and qualified.

The nominees will be elected if they receive a plurality of the votes cast for their election. Broker non-votes and abstentions will be counted for purposes of establishing a quorum, but will not be counted in the election of directors and therefore will not affect the election results if a quorum is present. It is the intention of the persons named as proxies in the accompanying proxy card to vote all shares represented by proxy for the three nominees listed below,

unless the authority to vote is withheld. If any of the nominees should withdraw or otherwise become unavailable for reasons not presently known, the shares represented by proxy will be voted for three nominees including such substitutions as shall be designated by the Board of Directors. The shares represented by proxy in no event will be voted for more than three persons.

**The Board unanimously recommends that you vote “FOR” the election of the directors nominated to serve until the Annual Meeting of Shareholders in 2010.**

#### Information Regarding Nominees for Election as Directors

| Name                | Age | Served as<br>Director Since | Term to Expire |
|---------------------|-----|-----------------------------|----------------|
| J. Allen Fine       | 72  | 1973                        | 2010           |
| David L. Francis    | 74  | 1982                        | 2010           |
| A. Scott Parker III | 63  | 1998                        | 2010           |

**J. Allen Fine** was the principal organizer of Investors Title Insurance Company and has been Chairman of the Board of the Company, Investors Title Insurance Company, and Northeast Investors Title Insurance Company since their incorporation. Mr. Fine served as President of Investors Title Insurance Company until February 1997, when he was named Chief Executive Officer. Additionally, Mr. Fine serves as Chief Executive Officer of the Company and Northeast Investors Title Insurance Company, and Chairman of the Board of Investors Title Exchange Corporation, Investors Capital Management Company and Investors Trust Company. Investors Title Insurance Company, Northeast Investors Title Insurance Company, Investors Title Exchange Corporation, Investors Title Accommodation Corporation, Investors Capital Management Company and Investors Trust Company are all wholly owned subsidiaries of the Company. Mr. Fine is the father of James A. Fine, Jr., President, Chief Financial Officer and Treasurer of the Company, and W. Morris Fine, Executive Vice President and Secretary of the Company.

**David L. Francis** retired in 1997 as the President of Marsh Mortgage Company, a mortgage banking firm, and Marsh Associates, Inc., a property management company, where he had been employed since 1963. He serves on the Board of Directors of First Landmark, a Charlotte real estate and property management firm.

**A. Scott Parker III** retired in 2006 from Today’s Home, Inc. after serving as President for 31 years. He continues to be managing member of Parker-Jones-Kemp LLC and Greenham Investments LLC, developers of furniture showroom properties to the trade.

#### Information Regarding Directors Continuing in Office

| Name                  | Age | Served as<br>Director Since | Term to Expire |
|-----------------------|-----|-----------------------------|----------------|
| W. Morris Fine        | 40  | 1999                        | 2008           |
| Loren B. Harrell, Jr. | 58  | 1996                        | 2008           |
| R. Horace Johnson     | 62  | 2005                        | 2008           |
| James A. Fine, Jr.    | 44  | 1997                        | 2009           |
| H. Joe King, Jr.      | 74  | 1983                        | 2009           |
| James R. Morton       | 69  | 1985                        | 2009           |

**W. Morris Fine** is Executive Vice President and Secretary of the Company, President and Chief Operating Officer of Investors Title Insurance Company and Northeast Investors Title Insurance Company, President and Chairman of the Board of Investors Title Management Services, Inc., Vice President of Investors Title Exchange Corporation and Investors Title Accommodation Corporation, and Chief Financial Officer and Treasurer of Investors Trust Company and Investors Capital Management Company. Investors Title Insurance Company, Northeast Investors Title Insurance Company, Investors Title Management Services, Inc., Investors Title Exchange Corporation, Investors Title Accommodation Corporation, Investors Capital Management Company and Investors Trust Company are all wholly owned subsidiaries of the Company. Mr. Fine is the son of J. Allen Fine, Chief Executive Officer and Chairman of the Board of the Company, and brother of James A. Fine, Jr., President, Chief Financial Officer and Treasurer of the Company.

**Loren B. Harrell, Jr.** organized SoftPro Corporation in 1984 and served as President and CEO from 1984 until his retirement in 2003. SoftPro Corporation is now a wholly owned subsidiary of Fidelity National Financial, Inc. SoftPro specializes in the research and development of software utilized by law firms, title companies, title insurance agents and lending institutions in the title insurance industry.

**R. Horace Johnson** retired in 2004 as managing partner of the Raleigh, North Carolina office of Ernst and Young, a public accounting firm, where he had been employed since 1967. During this period, Mr. Johnson served in many firm leadership roles including serving as the managing partner for the North Carolina practice for three years and on the operating committee of the Carolinas practice for five years. He also maintained an active client service role during the 25 years he served as partner. Mr. Johnson serves on the Board of Directors of Trust Atlantic Financial Corporation, a corporation formed to serve as a bank holding company, and on the Board of Advisors of Wilmington Pharmaceuticals, LLC, a pharmaceutical development company. He also serves on the Board of the following non-profit corporations: North Carolina Citizens for Business and Industry and the Council for Entrepreneurial Development.

**James A. Fine, Jr.** is President, Chief Financial Officer and Treasurer of the Company, Executive Vice President, Chief Financial Officer and Treasurer of Investors Title Insurance Company, Executive Vice President and Chief Financial Officer of Northeast Investors Title Insurance Company, Executive Vice President of Investors Title Management Services, Inc., President of Investors Title Exchange Corporation and Investors Title Accommodation Corporation, and Chief Executive Officer of Investors Trust Company and Investors Capital Management Company. Additionally, Mr. Fine serves as Chairman of the Board of Investors Title Accommodation Corporation. Investors Title Insurance Company, Northeast Investors Title Insurance Company, Investors Title Management Services, Inc., Investors Title Exchange Corporation, Investors Title Accommodation Corporation, Investors Capital Management Company and Investors Trust Company are all wholly owned subsidiaries of the Company. Mr. Fine is the son of J. Allen Fine, Chief Executive Officer and Chairman of the Board of the Company, and brother of W. Morris Fine, Executive Vice President and Secretary of the Company.

**H. Joe King, Jr.** retired as President and Chairman of the Board of Home Federal Savings & Loan Association in Charlotte, North Carolina and its parent company, HFNC Financial Corporation, in 1998, where he had been employed since 1962.

**James R. Morton** was President of J. R. Morton Associates from 1968 until he retired in 1988. He is currently President of TransCarolina Corporation.

**INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit Committee selected Dixon Hughes PLLC as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2007. Dixon Hughes PLLC served as the Company's independent registered public accounting firm for the fiscal year ended December 31, 2006, and its representatives are expected to attend the 2007 Annual Meeting of Shareholders and to be available to respond to appropriate questions. Dixon Hughes PLLC will have the opportunity to make a statement if they wish to do so.

**Audit and Non-Audit Fees**

Aggregate fees for professional services rendered by the Company's independent registered public accounting firm, Dixon Hughes PLLC, for the years ended December 31, 2006 and 2005 are set forth below.

|                        | <b>2006</b>       | <b>2005</b>       |
|------------------------|-------------------|-------------------|
| Audit Fees (1)         | \$ 269,100        | \$ 159,350        |
| Audit-Related Fees (2) | 7,700             | 6,146             |
| Tax Fees (3)           | 48,629            | 29,961            |
| All Other Fees         | 0                 | 0                 |
| <b>Total Fees</b>      | <b>\$ 325,429</b> | <b>\$ 195,457</b> |

(1) In 2006 and 2005, audit fees consisted of the audit of the financial statements, reviews of the quarterly financial statements and services rendered in connection with statutory and regulatory filings. In 2006, audit fees also included services related to internal control over financial reporting.

(2) Audit-related fees consisted of fees related to compliance with regulatory and statutory filings.

(3) Tax fees consisted primarily of tax compliance services.

**Audit and Non-Audit Services Pre-Approval Policy**

The Audit Committee has adopted an Audit and Non-Audit Services Pre-Approval Policy for pre-approving all audit and permissible non-audit services provided by the independent registered public accounting firm.

Each year, the Audit Committee pre-approves independent registered public accounting firm services and associated fee ranges within the categories of Audit Services, Audit-Related Services, Tax Services and Other Services.

Throughout the year, circumstances may arise that require the engagement of the independent registered public accounting firm for additional services that were not contemplated by the existing pre-approval categories. In that case, the Audit and Non-Audit Services Pre-Approval Policy requires specific approval by the Audit Committee of such services before engaging the independent registered public accounting firm. To ensure the prompt handling of such matters, the Audit Committee has granted pre-approval authority to its Chair. The Chair reports any pre-approval decisions made at the next Audit Committee meeting.

During 2006 and 2005, none of the services provided to the Company by the independent registered public accounting firm under the categories Audit-Related Services, Tax Services and Other Services described above were approved by the Audit Committee after such services were rendered pursuant to the de minimis exception established under SEC regulations.

### **AUDIT COMMITTEE REPORT**

The Audit Committee is directly responsible for overseeing the accounting and financial reporting processes of the Company and appointing, retaining, compensating and overseeing the work of the independent registered public accounting firm. Management is responsible for the financial reporting process, including the system of internal controls, and for the preparation of consolidated financial statements in accordance with generally accepted accounting principles. The independent registered public accounting firm is responsible for auditing those financial statements and expressing an opinion as to their conformity with accounting principles generally accepted in the United States of America.

The independent registered public accounting firm provided the Audit Committee with the written disclosures and the letter required by Independence Standards Board Standard No. 1, "Independence Discussions with Audit Committees," that describes all relationships between the Company and its independent registered public accounting firm that might bear on the firms' independence. The Audit Committee discussed with the independent registered public accounting firm any relationships that may have an impact on its objectivity and independence. Finally, the Audit Committee considered whether the independent registered public accounting firms' performance of services, other than audit services, is compatible with maintaining the independence of the independent registered public accounting firm.

The Audit Committee discussed and reviewed with management and the independent registered public accounting firm the audited financial statements as of and for the year ended December 31, 2006. The Audit Committee discussed with the independent registered public accounting firm those matters required to be discussed by Statement on Auditing Standards No. 61, as amended. The Audit Committee reviewed with the independent registered public accounting firm its audit plans, audit scope and identification of audit risks.

Based on the reviews and discussion referenced above, the Audit Committee recommended to the Board of Directors that the audited financial statements of the Company be included in its Annual Report on Form 10-K for the year ended December 31, 2006, for filing with the Securities and Exchange Commission.

Submitted by the Audit Committee of the Board of Directors:

H. Joe King, Jr., Chairman

David L. Francis

R. Horace Johnson



## COMPENSATION COMMITTEE REPORT

The Compensation Committee of the Board of Directors has reviewed and discussed the Compensation Discussion and Analysis presented below with management and, based on such review and discussions, recommended that the Compensation Disclosure and Analysis be included in this Proxy Statement and the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

Submitted by the Compensation Committee of the Board of Directors:

Loren B. Harrell, Jr.  
James R. Morton  
A. Scott Parker III

## EXECUTIVE COMPENSATION

### Compensation Discussion and Analysis

The Compensation Committee (the "Committee") is responsible for setting the compensation of the executive officers named in the Summary Compensation Table below. The following is a discussion and analysis of the material elements of the Company's compensation program for the named executive officers. The purpose of this discussion is to put into perspective the tables and narrative disclosure that follow this discussion.

***Philosophy and Objectives of the Executive Compensation Program.*** The Committee believes that the most effective executive compensation program is one that is designed to reward the achievement of both annual and long-term strategic goals of the Company, and which aligns executives' interests with those of the stockholders, with the ultimate goal of improving stockholder value.

To that end, the Committee strives to provide an overall competitive compensation package, with the following objectives:

- to attract and retain executives with the skills and attributes that the Company needs;
- to motivate executives to achieve the Company's annual and long-term strategic objectives;
- to reward performance based on the attainment of goals and objectives intended to benefit the Company and its stockholders;
- to align the interests of the Company's executives and stockholders; and
- to ensure the Company's compensation package remains competitive with those offered by other employers of comparable size engaged in similar lines of business.

***Determining Executive Compensation.*** The Committee makes all compensation decisions for the named executive officers and approves recommendations regarding equity awards.

The Chief Executive Officer annually reviews the performance of each of the other named executive officers. Based on those reviews, the Chief Executive Officer makes compensation recommendations to the Committee. The Committee then can exercise its discretion in modifying any recommended adjustments or awards to the other named executive officers.



The Committee's review of the Chief Executive Officer's compensation is subject to separate procedures. The Committee evaluates the Chief Executive Officer's performance, reviews the Committee's evaluation with him, and based on that evaluation and review, determines his compensation. Consistent with the requirements of the listing standards of The NASDAQ Stock Market, LLC, the Chief Executive Officer is excused from meetings of the Committee during voting deliberations regarding his compensation.

The Committee is guided by its own judgment and reviews comparative compensation information, competitor financial performance and key operating statistics along with the total return performance of the Company's stock as compared to a custom peer group and the NASDAQ Composite. In addition to reviewing such sources of information, the Committee annually reviews tally sheets showing each executive officer's compensation history with respect to each element of compensation, including equity and non-equity based compensation, for a period of five years. The Committee does not currently retain executive compensation consultants.

As a general principle, the Committee believes that compensation of the executive officers should not be based upon fixed formulas and that the prudent use of discretion in determining compensation will generally be in the best interest of the Company and its stockholders. As such, the Committee's decisions regarding each element of Compensation are not objective, but instead are based on the Committee's general experience and subjective consideration of various factors, as described below.

**Elements of Executive Compensation.** The principal elements of the Company's compensation program for the named executive officers are:

- base salaries;
- annual bonuses;
- long-term equity compensation;
- contributions to a supplemental retirement benefit plan;
- contributions to a deferred compensation plan;
- benefits and perquisites;
- employment agreements; and
- certain compensation and benefits in connection with termination of employment.

**Base Salaries.** Base salaries are paid to provide executives with a base level of monthly compensation and to attract and retain executive talent and reward performance. The Committee's decisions regarding adjustments to base salaries are based principally on the following factors:

- the responsibilities of the executives;
- the Committee's evaluation of market demand for executives with similar capability and experience;
- the Company's performance;

the performance of the individual executives;

the Committee's desire to strike an appropriate balance between the fixed elements of compensation and the variable performance-based elements; and

obligations under employment agreements.

Salary levels are typically considered annually as part of the Company's performance review process as well as upon a promotion or other change in job responsibility. Merit-based increases to salaries of named executive officers are based on the Committee's consideration of the critical leadership role and performance of each executive with respect to the following factors:

the Company's financial performance;

the Company's stock performance, in absolute terms and relative to the market and its peers; and

the Company's growth and other strategic initiatives.

**Annual Performance-Based Compensation.** Annual bonuses are paid to the executive officers to reward performance and motivate the executives to attain the Company's strategic objectives. Grants of annual bonuses are determined after year-end based primarily upon the attainment of overall Company performance objectives and individual performance objectives for the year. In determining bonus amounts, the Committee generally places greater emphasis on financial performance objectives than on personal performance objectives. Annual bonus awards are based on the Committee's consideration of the critical leadership role and performance of each executive with respect to the following factors:

the Company's financial performance;

the Company's stock performance, in absolute terms and relative to the market and its peers; and

the Company's growth and other strategic initiatives.

Based on evaluation of the above factors, the named executive officers were each awarded a bonus for 2006 as follows: J. Allen Fine - \$345,000, James A. Fine, Jr. - \$335,000 and W. Morris Fine - \$320,000.

**Long Term Equity Compensation.** The Committee periodically considers awarding stock options to the named executive officers, as well as other officers and employees, in order to link the interests and concerns of the program participants with those of the shareholders. By delivering value only when the value of the Company's stock increases, stock option grants provide an incentive for executives to focus on managing the Company from the perspective of an owner with an equity stake in the Company.

Stock option awards are made to the named executive officers and other key officers and employees when the Committee feels such awards are appropriate both to reward short-term performance with equity-based compensation and to motivate the recipient's long-term performance. The Committee does not follow the practice of making annual or other periodic awards. However, the Committee regularly reviews the stock ownership of key employees and, when it deems it appropriate, makes awards to reflect the contributions of those individuals to specific corporate achievements and to provide motivation toward achieving strategic objectives.

No stock option grants were made to the named executive officers in 2006.

**Nonqualified Supplemental Retirement Benefit Plan.** The Committee adopted a Nonqualified Supplemental Retirement Benefit Plan of the Company's wholly owned subsidiary, Investors Title Insurance Company ("ITIC"), in November 2003. This plan is an unfunded defined contribution plan designed to provide additional retirement benefits on a tax deferred basis for select management or highly compensated employees in order to enhance the participants' post-retirement financial security. Participants in the plan are determined by the Committee and currently only the named executive officers participate.

Under the Nonqualified Supplemental Retirement Benefit Plan, ITIC makes quarterly hypothetical contributions to each participant's account under the plan. Amounts credited to a participant's account may be deemed either to earn a specified rate of interest or to be invested in a security, index or other investment as determined by the Committee from time to time. Amounts in a participant's account (reflecting the hypothetical contributions and any deemed returns) are paid at the participant's termination of employment or death during employment in a lump sum, equal annual installments payable over five, ten, fifteen or twenty years or life annuity payments, as the participant elects.

For a detailed description of the plan see "*- Nonqualified Defined Contribution and Deferred Compensation Plans - Nonqualified Supplemental Retirement Benefit Plan*" below.

**Nonqualified Deferred Compensation Plan.** The Committee adopted the Nonqualified Deferred Compensation Plan of ITIC in June 2004. The plan is an unfunded defined contribution plan designed to permit select management or highly compensated employees to set aside additional retirement benefits on a pre-tax basis in order to enhance the participants' post-retirement financial security. Participants in the plan are determined by the Committee and currently only the executive officers named in the Summary Compensation Table participate.

The Deferred Compensation Plan permits participants to annually defer any portion of his salary or bonus and have the amount deferred credited to the participant's account under the plan. The plan also provides that on or before December 31<sup>st</sup> of each year, beginning in 2004, ITIC will make a hypothetical contribution to a participant's account under the plan equal to the amount that ITIC would have contributed to the participant's Simplified Employee Pension Plan if ITIC's contributions to this plan were not limited under the federal tax laws. Amounts credited to a participant's account may be deemed either to earn a specified rate of interest or to be invested in a security, index or other investment as determined by the Committee from time to time. Amounts in a participant's account (reflecting compensation deferred, hypothetical contributions and any deemed returns) are paid at the participant's termination of employment in a lump sum.

For a detailed description of the plan see "*- Nonqualified Defined Contribution and Deferred Compensation Plans - Nonqualified Deferred Compensation Plan*" below.

**Benefits and Perquisites.** The Company provides all eligible employees, including the named executive officers, with a benefit program that the Company and Committee believe is reasonable, competitive, and consistent with the overall objectives of the compensation program of attracting and retaining talented employees and executives with the skills and attributes the Company needs.

The Company's executive officers are eligible to participate in the Company's group insurance program, which includes group health, dental, vision, life and long-term disability insurance. Other benefits include a Simplified Employee Pension Plan under which ITIC contributes a percentage of salary and bonus as determined annually by the board of directors of ITIC subject to limitations imposed by Internal Revenue Code § 408(k), flexible spending accounts, a pretax premium plan, paid sick leave, paid holidays, and paid vacations.



As a matter of policy, the Committee does not award personal benefits or perquisites that are unrelated to the Company's business.

The Committee reviews and approves annually all benefits and perquisites paid to the Company's executive officers.

**Employment Agreements.** ITIC has entered into employment agreements with the executive officers under which they are entitled to certain compensation and benefits, including severance benefits. These agreements are intended to provide employment security by specifying minimum base salary and benefits. Additionally, under these agreements the executive officers agree to certain non-competition and non-solicitation covenants. For additional information regarding these employment agreements see “- 2006 Summary Compensation Table - Employment Agreements” below. For detailed information regarding severance benefits see “- Potential Payments Upon Termination or Change in Control” below.

**Payments and Benefits Upon Change in Control.** Under the employment agreements with the executive officers they are entitled to certain severance payments if they terminate employment because of a change in control, as well as a salary increase of 100% if a change in control does not result in termination of employment.

The arrangements were established because:

- it is in the best interests of the Company and its stockholders to assure that the Company will have the continued dedication of the Company's executive officers notwithstanding the possibility, threat or occurrence of a change in control; and
- it is imperative to diminish the inevitable distraction to such executive officers by virtue of the personal uncertainties and risks created by a pending or threatened change in control.

For detailed information regarding severance benefits payable in connection with a termination because of a change in control see “- Potential Payments Upon Termination or Change in Control” below.

### ***Tax and Accounting Implications***

**Deductibility of Executive Compensation.** As part of its role, the Committee reviews and considers the tax deductibility of executive compensation under Section 162(m) of the Internal Revenue Code of 1986, as amended, which provides that a public company is generally not entitled to deduct for federal income tax purposes non-performance-based compensation paid to any of its named executive officers in excess of \$1.0 million.

All compensation paid to the executive officers in 2006, 2005, and 2004, was fully deductible for the purposes of Section 162(m). However, in order to maintain flexibility in compensating executive officers in a manner designed to promote varying corporate goals, the Committee has not adopted a policy that all compensation must be deductible for federal income tax purposes.

**Nonqualified Deferred Compensation.** On October 22, 2004, the American Jobs Creation Act of 2004 was signed into law, changing the tax rules applicable to nonqualified deferred compensation arrangements. While the final regulations have not become effective yet, the Committee believes the Company is operating in good faith compliance with the statutory provisions which were effective January 1, 2005.

**Accounting for Stock-Based Compensation.** Beginning on January 1, 2006, the Company began accounting for stock-based payments in accordance with the requirements of Financial Accounting Standards Board Statement No. 123, “Share Based Payment (revised 2004)” (“FAS 123R”).

### **Stock Performance**

While the Committee reviews stock performance in making its compensation decisions, it balances emphasis on this particular measurement of Company and executive performance with the understanding that short-term movements in stock price and total return to stockholders as reflected in the performance of the Company’s stock price are subject to factors, including factors affecting the securities markets generally, that are unrelated to the Company’s performance.

The Committee notes that the Company and its management’s priorities are centered on meeting customer needs, building cash flow and return on assets, and promoting operational excellence and innovation in the pursuit of its business. The pursuit of such longer range objectives is not necessarily consistent with producing short-term results to increase the Company’s stock price, but the Committee believes that pursuing longer range objectives should result in performance that is more likely to maximize return to the stockholders over time.

Since executive compensation is based upon factors relating to the Company’s growth and profitability and the return on operating assets as well as the contributions of each of its executives to achieving objectives, the Committee believes that appropriate incentives to align management’s interests with the Company’s long-term growth and development and the interests of the Company’s stockholders have been provided. The Committee also believes that there are many ways in which executive officers and other executives contribute to building a successful company. While financial statements and stock price should eventually reflect the results of those efforts, many long-term strategic decisions made in pursuing growth and development may have little visible impact on the Company’s stock price in the short term.

### **2006 Summary Compensation Table**

The following table sets forth information concerning the compensation earned during 2006 by the Company’s Chief Executive Officer, Chief Financial Officer and other executive officers who earned more than \$100,000 in total compensation (excluding the impact of earnings on deferred compensation) during 2006 (collectively, the “named executive officers”).

| <b>Name and Principal Position</b>                                      | <b>Salary (\$)</b> | <b>Bonus (\$)</b> | <b>All Other Compensation (\$)(1)</b> | <b>Total (\$)</b> |
|---|--------------------|-------------------|---------------------------------------|-------------------|
| J. Allen Fine<br>Chief Executive Officer &<br>Chairman of the Board     | 273,400            | 345,000           | 184,030                               | 802,430           |
| James A. Fine, Jr.<br>President, Chief Financial<br>Officer & Treasurer | 219,333            | 335,000           | 174,285                               | 728,618           |
| W. Morris Fine<br>Executive Vice President<br>& Secretary               | 219,333            | 320,000           | 174,285                               | 713,618           |



- (1) The amounts set forth in this column consisted of (i) Company contributions to Simplified Employee Pension Plan, (ii) Company-paid life and health insurance premiums, (iii) Company contributions under the Nonqualified Supplemental Retirement Benefit Plan (the “Supplemental Retirement Plan”) and (iv) Company contributions under the Nonqualified Deferred Compensation Plan as follows:

19

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| Name               | Pension Plan  | Life      | Health    | Supplemental  | Deferred      | Total (\$) |
|--------------------|---------------|-----------|-----------|---------------|---------------|------------|
|                    | Contributions | Insurance | Insurance | Retirement    | Compensation  |            |
|                    | (\$)          | Premiums  | Premiums  | Plan          | Plan          |            |
|                    |               | (\$)      | (\$)      | Contributions | Contributions |            |
|                    |               |           |           | (\$)          | (\$)          |            |
| J. Allen Fine      | 16,800        | 720       | -         | 135,014       | 31,496        | 184,030    |
| James A. Fine, Jr. | 16,800        | 1,242     | 6,042     | 123,054       | 27,147        | 174,285    |
| W. Morris Fine     | 16,800        | 1,242     | 6,042     | 123,054       | 27,147        | 174,285    |

For further information regarding the Nonqualified Supplemental Retirement Benefit Plan and Nonqualified Deferred Compensation Plan see “—*Nonqualified Defined Contribution and Deferred Compensation Plans*” below.

### **Employment Agreements**

ITIC is party to an employment agreement with each of J. Allen Fine, James A. Fine, Jr. and W. Morris Fine under which they are entitled to minimum base salaries of \$259,500, \$207,000 and \$207,000, respectively. Under these agreements, which have five year rolling terms, Messrs. Fine, Fine, Jr. and Fine participate in the Company’s Nonqualified Supplemental Retirement Benefit Plan, participate in the benefits programs generally provided to other executives, receive 30 days of paid vacation and unlimited sick leave and are entitled to reimbursement for reasonably incurred out-of-pocket business expenses. Under these agreements, Messrs. Fine, Fine, Jr. and Fine would, upon termination, receive as severance certain payments as described under “- *Potential Payments Upon Termination or Change in Control*” below. The agreements also prohibit Messrs. Fine, Fine, Jr. and Fine from engaging in certain activities involving competition with the Company for a two year period following termination of employment.

### **Outstanding Equity Awards at Fiscal Year End**

Equity awards outstanding at December 31, 2006, are presented in the table below:

| Name               | Number of Securities Underlying Unexercised Options (#) Exercisable | Option Awards   |  | Option Exercise Price (\$) | Option Expiration Date |
|--------------------|---|---|--|----------------------------|------------------------|
|                    |   | Number of Securities Underlying Unexercised Options (#) Unexercisable |  |                            |                        |
| J. Allen Fine      | 1,600   | 800 <sup>(1)</sup>  |  | 29.15                      | 05/12/08               |
| James A. Fine, Jr. | 2,000   | 1,000 <sup>(1)</sup>  |  | 29.15                      | 05/12/08               |
| W. Morris Fine     | 2,000   | 1,000 <sup>(1)</sup>  |  | 29.15                      | 05/12/08               |

(1) This item sets forth the unvested portion of an option grant, which will vest fully on May 12, 2007.

## **Nonqualified Defined Contribution and Deferred Compensation Plans**

***Nonqualified Supplemental Retirement Benefit Plan.*** The Company's executive officers participate in ITIC's Nonqualified Supplemental Retirement Benefit Plan (the "Supplemental Retirement Plan"). The Supplemental Retirement Plan is an unfunded defined contribution plan designed to provide additional retirement benefits on a tax deferred basis for select management or highly compensated employees in order to enhance the participants' post-retirement financial security. The rights of the participants are those of general, unsecured creditors.

Under the Supplemental Retirement Plan, ITIC makes quarterly hypothetical contributions to each participant's account under the plan equal to 22% of the participant's salary and bonus compensation during the quarter. Once ITIC has contributed this amount for 20 quarters, additional contributions to a participant's account are discretionary. If a participant terminates employment before ITIC has made contributions for 20 quarters, then a lump sum hypothetical contribution to the terminated participant's account equal to the number of quarters less than 20 times 22% of the participant's salary and bonus compensation for the twelve months preceding the termination of employment will be made as of the termination date.

Amounts credited to a participant's account may be deemed either to earn a specified rate of interest or to be invested in a security, index or other investment as determined by the Compensation Committee from time to time. Since the establishment of the plan, the amounts credited to each participant's account have been deemed to earn interest at an annual rate of return, compounded quarterly, based on the then current yield on the 10-Year U.S. Treasury Note.

Amounts in a participant's account (reflecting the hypothetical contributions and any deemed returns) are paid at the participant's termination of employment or death during employment in a lump sum, equal annual installments payable over five, ten, fifteen or twenty years or life annuity payments, as the participant elects.

For additional information regarding the executive officer's accounts under the Supplemental Retirement Plan, see the "2006 Nonqualified Deferred Compensation" table below.

***Nonqualified Deferred Compensation Plan.*** The Company's executive officers also participate in ITIC's Nonqualified Deferred Compensation Plan. This plan is an unfunded defined contribution plan designed to permit select management or highly compensated employees to set aside additional retirement benefits on a pre-tax basis. The rights of the participants are those of general, unsecured creditors.

The Deferred Compensation Plan permits each participant to annually defer any portion of his salary or bonus and have the amount deferred credited to the participant's account under the plan. The plan also provides that on or before December 31<sup>st</sup> of each year, ITIC will make a hypothetical contribution to a participant's account under the plan equal to the amount that ITIC would have contributed to the participant's Simplified Employee Pension Plan if ITIC's contributions to this plan were not limited under the federal tax laws.

Amounts credited to a participant's account may be deemed either to earn a specified rate of interest or to be invested in a security, index or other investment as determined by the Compensation Committee from time to time. Since the effective date of the plan, the amounts credited to each participant's account have been deemed to earn interest at an annual rate of return, compounded quarterly, based on the then current yield on the 10-Year U.S. Treasury Note.

Amounts in a participant's account (reflecting compensation deferred, ITIC's hypothetical contributions, and any deemed returns) are paid at the participant's termination of employment in a lump sum. See the following table for additional information regarding the named executive officer's accounts under the Deferred Compensation Plan.

**2006 Nonqualified Deferred Compensation.** The following table shows information about the participation by each executive officer in the Supplemental Retirement Plan and the Deferred Compensation Plan.

| Name   | Executive Contributions in Last FY (\$) | Employer Contributions in Last FY (\$)(1) | Aggregate Earnings in Last FY (\$) (2) | Aggregate Withdrawals/ Distributions (\$) | Aggregate Balance at Last FYE (\$) (3) |
|--|---|---|--|---|--|
| J. Allen Fine<br>(Deferred Compensation Plan)        | -                                       | 31,496                                    | 3,952                                  | -   | 115,780                                |
| J. Allen Fine<br>(Supplemental Retirement Plan)      | -                                       | 135,014                                   | 16,758                                 | -   | 428,512                                |
| James A. Fine, Jr.<br>(Deferred Compensation Plan)   | -                                       | 27,147                                    | 3,261                                  | -   | 96,688                                 |
| James A. Fine, Jr.<br>(Supplemental Retirement Plan) | -                                       | 123,054                                   | 15,086                                 | -   | 384,519                                |
| W. Morris Fine<br>(Deferred Compensation Plan)       | -                                       | 27,147                                    | 3,241                                  | -   | 96,268                                 |
| W. Morris Fine<br>(Supplemental Retirement Plan)     | -                                       | 123,054                                   | 15,072                                 | -   | 383,405                                |

(1) Amounts in this column reflect hypothetical contributions and are included in the "All Other Compensation" column of the 2006 Summary Compensation Table above.

(2) None of the amounts reflected in this column are reported as above-market earnings on deferred compensation in the “Change in Pension Value and Nonqualified Deferred Compensation Earnings” column of the *2006 Summary Compensation Table* above.

(3) Of the amounts reported in this column, the following amounts have been reported in the Summary Compensation Tables of the Company’s proxy statements for previous years: Mr. J. Allen Fine — \$54,142 (Deferred Compensation Plan) and \$265,577 (Supplemental Retirement Plan); Mr. James A. Fine, Jr. — \$44,627 (Deferred Compensation Plan) and \$236,298 (Supplemental Retirement Plan); and Mr. W. Morris Fine — \$44,227 (Deferred Compensation Plan) and \$235,198 (Supplemental Retirement Plan).

### **Potential Payments Upon Termination or Change in Control**

The executive officers are entitled to severance payments and benefits under their employment agreements, as described above under “*2006 Summary Compensation Table - Employment Agreements*,” and certain other agreements, as described below.

**J. Allen Fine.** Under Mr. J. Allen Fine’s employment agreement, if his employment is terminated due to his death, disability or retirement (following his 70<sup>th</sup> birthday), he is entitled to receive:

- his then current base salary paid monthly for three years;
- three annual payments paid on each of the first, second and third anniversaries of the termination date equal to his average bonus compensation during the preceding three years;
- accrued benefits under the Nonqualified Supplemental Retirement Benefit Plan and Nonqualified Deferred Compensation Plan;
- accelerated vesting in full of all his stock options;
- continued participation in the Company’s health insurance plans by him and his wife at no expense until his death or, if later, his wife’s death; and
- continued participation in the Company’s health insurance plans by his dependent children at no expense until any such children are no longer dependent.

Under Mr. Fine’s employment agreement, if his employment is terminated by the Company other than for “cause” or by him due to the Company’s materially breaching the agreement (“i.e., good reason”), he is entitled to receive:

- his then current base salary paid monthly for five years;
- five annual payments paid on each of the first, second and third anniversaries of the termination date equal to his average bonus compensation during the preceding three years;
- accrued benefits under the Nonqualified Supplemental Retirement Benefit Plan and Nonqualified Deferred Compensation Plan;
- accelerated vesting in full of all his stock options; and
- continued health insurance coverage as described above.



Under Mr. Fine's employment agreement, if he terminates his employment because of a "change in control," he is entitled to receive:

- a lump sum payment equal to 2.99 times his then current base salary;
- a lump sum payment equal to 2.99 times his average bonus compensation during the preceding three years;
- accrued benefits under the Nonqualified Supplemental Retirement Benefit Plan and Nonqualified Deferred Compensation Plan;
- accelerated vesting in full of all his stock options; and
- continued health insurance coverage as described above.

If any portion of these payments and benefits, or payments and benefits under any other plan, agreement or arrangement, would constitute an "excess parachute payment" for purposes of the Internal Revenue Code, such payments and benefits payable under the agreement will be reduced until no portion thereof would fail to be deductible by reason of being "an excess parachute payment."

Under Mr. Fine's employment agreement, if his employment is terminated by the Company for "cause," he is entitled to receive:

- an amount equal to that amount he would have received as salary had he remained an employee until the later of the date of his termination and 30 days after notice of termination; and
- accrued benefits under the Nonqualified Supplemental Retirement Benefit Plan and Nonqualified Deferred Compensation Plan.

Under Mr. Fine's employment agreement, "cause" is defined as:

- the executive's conviction of, or plea of guilty or nolo contendere to, any crime involving dishonesty or moral turpitude;
- the commission by executive of a fraud against the Company for which he is convicted;
- gross negligence or willful misconduct by executive with respect to the Company which causes material detriment to the Company;
- the falsification or manipulation of any records of the Company;
- repudiation of the agreement by executive or executive's abandonment of employment with the Company;
- breach by executive of his confidentiality, noncompetition or nonsolicitation obligations under the agreement; or
- failure or refusal of executive to perform his duties with the Company or to implement or follow the policies or directions of the Board of Directors within 30 days after a written demand for performance is delivered to executive that specifically identifies the manner in which the Board of Directors believes that executive has not performed his duties or failed to implement or follow the policies or directions of the Board of Directors.





Under Mr. Fine's employment agreement, a "change in control" will occur if:

- any person or group acting in concert, other than the executive or his affiliates or immediate family members, is or becomes the beneficial owner, directly or indirectly, of securities of the Company representing 50% or more of the combined voting power of the Company's outstanding shares entitled to vote for the election of directors;
- the directors serving at the time the agreement was entered into or any successor to any such director (and any additional director) who after such time (i) was nominated or selected by a majority of the directors serving at the time of his or her nomination or selection and (ii) who is not an "affiliate" or "associate" (as defined in Regulation 12B under the Securities Exchange Act of 1934) of any person who is the beneficial owner, directly or indirectly, of securities representing 50% or more of the combined voting power of the Company's outstanding shares entitled to vote for the election of directors, cease for any reason to constitute at least a majority of the Company's Board of Directors;
- a sale of more than 50% of the Company's assets (measured in terms of monetary value) is consummated; or
- any merger, consolidation, or like business combination or reorganization of the Company is consummated that results in the occurrence of any event described above.

J. Allen Fine is also party to a Death Benefit Plan Agreement with the Company. Notwithstanding the payout provisions of Mr. Fine's employment agreement, the Death Benefit Plan Agreement provides that certain amounts payable under Mr. Fine's employment agreement in the event of his death will be paid in a lump sum within 60 days of his death to a beneficiary designated by Mr. Fine.

**James A. Fine, Jr. and W. Morris Fine.** The employment agreements of James A. Fine, Jr. and W. Morris Fine are substantially identical to J. Allen Fine's employment agreement, except that under their agreements (1) Messrs. Fine, Jr. and Fine are eligible to receive retirement benefits under their agreements after age 50, rather than age 70, and (2) following termination of employment by the Company other than for "cause" or by the executive due to a material breach by the Company of the agreement (i.e., "good reason") or because of a "change in control," they are entitled to cause the Company to transfer to them any life insurance policies owned by the Company on their lives.

James A. Fine, Jr. is also party to a Death Benefit Plan Agreement with the Company. Notwithstanding the payout provisions of Mr. Fine's employment agreement, the Death Benefit Plan Agreement provides that certain amounts payable under Mr. Fine's employment agreement in the event of his death will be paid in a lump sum within 60 days of his death to a beneficiary designated by him. Under the Death Benefit Plan Agreement, Mr. Fine's designated beneficiary would also be paid a lump sum amount equal to \$2,000,000,

· reduced by the following amounts that would be paid under Mr. Fine's employment agreement and the Supplement Retirement Plan in the event of his death:

- (a) the Company's contributions to Mr. Fine's account under the Supplemental Retirement Plan;

(b) three times his then current base salary;

(c) three times his average bonus compensation during the preceding three years;

(d) the cost of continued participation in the Company's health insurance plans by him and his wife until his death or, if later, his wife's death; and

(e) the cost of continued participation in the Company's health insurance plans by his dependent children until any such children are no longer dependent; and

increased by the amounts accrued on the Company's books as of the date of death for the payments described in items (a) through (e) above.

W. Morris Fine is not currently a party to a Death Benefit Plan Agreement; however, the Company anticipates entering into such an agreement with W. Morris Fine in 2007, which would be substantially similar to the Death Benefit Plan Agreement with James A. Fine, Jr.

**Conditions to Receipt of Severance Benefits.** Under each named executive officer's employment agreement, the Company's obligations to provide the executive with the severance benefits described above are contingent on:

- The executive's compliance with certain covenants with respect to confidential information;
- The executive's compliance with a two year noncompetition covenant; and
- The executive's compliance with a two year nonsolicitation covenant.

**Estimated Post-Employment Compensation and Benefits.** The following tables set forth the estimated post-employment compensation and benefits that would have been payable to each of the named executive officers under his agreements, assuming that each covered circumstance occurred on December 31, 2006.

| Benefits and Payments                        | Voluntary Termination | Termination for Cause | Termination Because of Change in Control | Termination for Retirement (1) or Disability | Death            | Termination without Cause or for Good Reason |
|--|-----------------------|-----------------------|--|--|------------------|--|
| <b><u>J. ALLEN FINE:</u></b>                 |                       |                       |  |  |                  |  |
| <b>Compensation:</b>                         |                       |                       |  |  |                  |  |
| Base Salary                                  | 0                     | 22,603 <sup>(2)</sup> | 822,250 <sup>(3)</sup>                   | 825,000 <sup>(4)</sup>                       | 825,000          | 1,375,000 <sup>(5)</sup>                     |
| Bonus  | 0                     | 0                     | 956,800 <sup>(6)</sup>                   | 960,000 <sup>(7)</sup>                       | 960,000          | 1,600,000 <sup>(8)</sup>                     |
| Unvested Stock Options                       | 0                     | 0                     | 19,400 <sup>(9)</sup>                    | 19,400 <sup>(9)</sup>                        | 19,400           | 19,400 <sup>(9)</sup>                        |
| Supplemental Retirement Plan <sup>(10)</sup> | 665,288               | 665,288               | 665,288                                  | 665,288                                      | 665,288          | 665,288                                      |
| Deferred Compensation Plan <sup>(11)</sup>   | 115,780               | 115,780               | 115,780                                  | 115,780                                      | 115,780          | 115,780                                      |
| <b>Benefits and Perquisites</b>              |                       |                       |  |  |                  |  |
| Health Plan <sup>(12)</sup>                  | 0                     | 0                     | 28,486                                   | 28,486                                       | 28,486           | 28,486                                       |
| <b>Total - J. Allen Fine:</b>                | <b>781,068</b>        | <b>803,671</b>        | <b>2,608,004</b>                         | <b>2,613,954</b>                             | <b>2,613,954</b> | <b>3,803,954</b>                             |

**JAMES A. FINE,**

|  |                |                       |                        |                        |                         |                          |
|--|----------------|-----------------------|------------------------|------------------------|-------------------------|--------------------------|
| <b><u>JR.:</u></b>                           |                |                       |                        |                        |                         |                          |
| <b>Compensation:</b>                         |                |                       |                        |                        |                         |                          |
| Base Salary                                  | 0              | 18,115 <sup>(2)</sup> | 658,996 <sup>(3)</sup> | 661,200 <sup>(4)</sup> | 661,200                 | 1,102,000 <sup>(5)</sup> |
| Bonus  | 0              | 0                     | 941,850 <sup>(6)</sup> | 945,000 <sup>(7)</sup> | 945,000                 | 1,575,000 <sup>(8)</sup> |
| Unvested Stock Options                       | 0              | 0                     | 24,250 <sup>(9)</sup>  | 24,250 <sup>(9)</sup>  | 24,250                  | 24,250 <sup>(9)</sup>    |
| Supplemental Retirement Plan <sup>(10)</sup> | 600,273        | 600,273               | 600,273                | 600,273                | 600,273                 | 600,273                  |
| Deferred Compensation Plan <sup>(11)</sup>   | 96,688         | 96,688                | 96,688                 | 96,688                 | 96,688                  | 96,688                   |
| Death Benefit Plan Agreement                 | 0              | 0                     | 0                      | 0                      | 758,063 <sup>(13)</sup> | 0                        |
| <b>Benefits and Perquisites</b>              |                |                       |                        |                        |                         |                          |
| Health Plan <sup>(12)</sup>                  | 0              | 0                     | 140,785                | 140,785                | 140,785                 | 140,785                  |
| Life Insurance <sup>(14)</sup>               | 0              | 0                     | 12,781                 | 12,781                 | 0                       | 12,781                   |
| <b>Total - James A. Fine, Jr.:</b>           | <b>696,961</b> | <b>715,076</b>        | <b>2,475,623</b>       | <b>2,480,977</b>       | <b>3,226,259</b>        | <b>3,551,777</b>         |

**W. MORRIS FINE:**

|  |         |                       |                        |                        |         |                          |
|--|---------|-----------------------|------------------------|------------------------|---------|--------------------------|
| <b>Compensation:</b>                         |         |                       |                        |                        |         |                          |
| Base Salary                                  | 0       | 18,115 <sup>(2)</sup> | 658,996 <sup>(3)</sup> | 661,200 <sup>(4)</sup> | 661,200 | 1,102,000 <sup>(5)</sup> |
| Bonus  | 0       | 0                     | 936,867 <sup>(6)</sup> | 940,000 <sup>(7)</sup> | 940,000 | 1,566,667 <sup>(8)</sup> |
| Unvested Stock Options                       | 0       | 0                     | 24,250 <sup>(9)</sup>  | 24,250 <sup>(9)</sup>  | 24,250  | 24,250 <sup>(9)</sup>    |
| Supplemental Retirement Plan <sup>(10)</sup> | 599,159 | 599,159               | 599,159                | 599,159                | 599,159 | 599,159                  |
| Deferred Compensation Plan <sup>(11)</sup>   | 96,268  | 96,268                | 96,268                 | 96,268                 | 96,268  | 96,268                   |

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|                                 |         |         |           |           |                   |           |
|---------------------------------|---------|---------|-----------|-----------|-------------------|-----------|
| Death Benefit Plan Agreement    | 0       | 0       | 0         | 0         | 0 <sup>(13)</sup> | 0         |
| <b>Benefits and Perquisites</b> |         |         |           |           |                   |           |
| Health Plan <sup>(12)</sup>     | 0       | 0       | 86,447    | 86,447    | 86,447            | 86,447    |
| Life Insurance <sup>(14)</sup>  | 0       | 0       | 0         | 0         | 0                 | 0         |
| <b>Total - W. Morris Fine:</b>  | 695,427 | 713,542 | 2,401,987 | 2,407,324 | 2,407,324         | 3,474,791 |

(1) J. Allen Fine was eligible to retire on May 2, 2004.

- (2) Represents 30 days severance.
- (3) Represents lump sum severance payment equal to 2.99 times base salary.
- (4) Represents three years severance, payable monthly.
- (5) Represents five years severance, payable monthly.
- (6) Represents lump sum severance payment equal to 2.99 times average bonus for past three years.
- (7) Represents three times average bonus for past three years, payable in three annual installments.
- (8) Represents five times average bonus for past three years, payable in three annual installments.
- (9) Represents the value of unvested options held on December 31, 2006 accelerated in connection with termination, based upon the amount by which the closing market price (\$53.40) of the underlying shares of common stock on December 29, 2006, the last trading day of 2006, exceeded the exercise price.
- (10) Represents accumulated benefit under the Company's Nonqualified Supplemental Retirement Benefit Plan plus contribution required to ensure minimum of 20 quarters of Company contributions.
- (11) Represents accumulated benefit under the Company's Nonqualified Deferred Compensation Plan.
- (12) Reflects estimated cost of providing health insurance plan coverage using assumptions used for financial reporting purposes.
- (13) Represents the estimated lump sum amount that would be payable under the officer's Death Benefit Plan Agreement. W. Morris Fine is not currently a party to a Death Benefit Plan Agreement, but the Company anticipates entering into such an agreement with him in 2007 on terms substantially similar to the Death Benefit Plan Agreement with James A. Fine, Jr. If such an agreement had been in effect for W. Morris Fine in 2006, W. Morris Fine would have been entitled to approximately \$617,000 in the event of his death on December 31, 2006.
- (14) Reflects cash surrender value of life insurance policy, transferable at the executive's request.

#### **CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

The Board of Directors recognizes that related party transactions present a heightened risk of conflicts of interest, or the perception of conflicts of interest, and has adopted a written policy to be followed in connection with all related party transactions involving the Company. Pursuant to the policy, all related party transactions must be approved by either (1) a majority of the disinterested members of the Audit Committee of the Board of Directors or (2) a majority of independent and disinterested members of the Board of Directors. In either case, a related party transaction may not be approved by a single director. For purposes of the policy, the term "related party transaction" is defined as any transaction that is required to be disclosed in the Company's proxy statements or other filings with the SEC pursuant to Item 404(a) of Regulation S-K under the Securities Exchange Act of 1934 and any material "conflict of interest" transaction with a director, as that term is defined under the North Carolina Business Corporation Act. For fiscal year 2006, there were no related party transactions that were required to be disclosed in this Proxy Statement.

**SHAREHOLDER PROPOSALS FOR 2008 ANNUAL MEETING**

Shareholder proposals to be presented at the 2008 Annual Meeting of Shareholders must be received by the Company on or before December 18, 2007 to be considered for inclusion in the Company's proxy materials relating to that meeting. If a shareholder notifies the Company after March 2, 2008 of an intent to present a proposal at the Company's 2008 Annual Meeting of Shareholders, the request will be considered untimely and the persons named as the Company's proxies will have the right to exercise their discretionary voting authority with respect to such proposal without including information regarding the proposal in the proxy materials.

BY ORDER OF THE BOARD OF DIRECTORS:

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W. Morris Fine  
Secretary

April 16, 2007