CATIC Financial, Inc.

2010 Annual Report

To Our Shareholders:

The economic recovery that began in 2009 continued in 2010. While its pace was considerably slower than most previous post-recession recoveries, the economic indicators were virtually all positive. Even the housing sector, which has lagged behind the other sectors in the economy, had positive news as we climbed out of the valley of recession.

Your Company reported revenue growth over 2009 of more than $15.5 million dollars, or 18.8%. CATIC, New Jersey Title Insurance Company (NJTIC) and Eastern Attorneys Services, Incorporated reported healthy increases in transaction volumes and revenues. Despite unfavorable interest and property exchange climates, CATIC Exchange Solutions, Inc. saw its net loss decrease by $28,000, or 27%. Also, total assets for your Company exceeded $76.3 million, an increase of $2.1 million over 2009. The employees of your Company and its subsidiaries continued to develop and introduce new products and services designed to assist our customers in achieving success. These initiatives included: updated software; continuing professional education; expanded reinsurance services for regional title insurance companies; and expanded professional liability and bond programs. Much was accomplished in 2010.

Unfortunately, your Company was adversely impacted by the growing problem of mortgage-related fraud that has affected the mortgage and title insurance industries. Despite our best efforts, both CATIC and NJTIC experienced significant fraud losses in 2010. Much of the increase in policy claims and loss adjustment expenses experienced by these companies is attributable to the fraudulent conduct of a handful of agents and attorneys. While virtually every title insurance underwriter has seen its fraud losses grow in recent years, these losses are particularly disheartening for us in view of our commitment to supporting the role of independent title agents. However, our staff has been hard at work reviewing and revising our procedures to reduce our exposure to future fraud cases. Our goal is to find ways to encourage and support our agents while insulating us from exposure to the fraudulent conduct of the few “bad apples” among the thousands of capable and honest independent agents through whom we operate.

Notwithstanding the challenges posed by the continuing sluggishness of the housing sector and mortgage-related fraud, your Company continues to grow and improve. We believe that these are the twin engines of our success. For it is through growth and improvement that we will continue to earn your business and the business of our other customers and partners.

Patricia C. Farrell
Chairperson

Richard J. Patterson
President and CEO

CATIC®

There were many positive developments for CATIC in 2010. The total number of policies issued grew by 10% over 2009 and 36% over 2008. Similarly, more than $52.4 million in gross premiums were written. This was the 5th highest total in the Company's 45-year history and represented a 17% increase over 2009. The greater rate in growth can be attributed to two factors in the Company's mix of business. First, the Company issued 21% more owner policies in 2010 than 2009. Generally, owner policies have a higher policy amount and premium than loan or mortgagee policies. The second factor was that more commercial transactions were insured. While the Company's reinsurance costs increased 199%, this increase was more than offset by the premiums these transactions generated.

CATIC continued to build upon its commitment to meeting the needs of its agents and insureds. During the year, 77 seminars were attended by more than 2,000 agents. One hundred thirty-two publications were distributed to agents via paper or electronic means. Ongoing training was provided to title agents and lender personnel on the 2010 RESPA revisions. The Company's Industry Relations staff worked closely with the lending community to make the transition to the new regulatory requirements as seamless as possible for lenders and agents alike.

These efforts were recognized in several ways. In Connecticut, CATIC received the Connecticut Law Tribune's Gold Award as the Best Title Insurance Company. It was the 6th consecutive year that we received this award. The Company also received the Commercial Record's designation as the Best Residential Title Insurer. In Massachusetts, Banker & Tradesman awarded the Company its Silver Prize in the Residential Title Insurance category. What is remarkable about this award is that CATIC accounted for less than 6% of the title insurance premiums written in Massachusetts. Perhaps the most meaningful testimony to the recognition of the value that CATIC provided to its agents was that the Company's market share once again grew in every market in which it operated.

Not everything that occurred in 2010 was positive for CATIC. The Company did suffer mortgage-related fraud losses perpetrated by two agents and a dishonest property owner. The losses associated with these criminal acts were substantial enough to cause the Company to experience the first loss in its history. Recovery efforts are underway against the perpetrators and they have been reported to law enforcement authorities. The staff has revised procedures in an effort to prevent fraud losses in the future.

While fraud losses did put a damper on an otherwise very successful year, they did not cause a loss of focus on CATIC's commitment to service, excellence and financial strength. We remain committed to being the best title insurer in the business.

New Jersey Title Insurance Company

New Jersey Title Insurance Company experienced continued growth in 2010. Total Premiums written exceeded $37 million, an increase of 40% over 2009. The company's market share in New York was 2.4%, up from 1.3% in 2009. In New Jersey market share increased from 4.5% in 2009 to 5.4% in 2010. The company experienced a slight .1% decrease in Pennsylvania market share. However, an expansion into the Pittsburg area market in 2011 is planned and we are confident this will lead to significant growth.

Claims experience was unacceptably high in 2010. This was due almost exclusively to fraud claims. Agent monitoring procedures have been enhanced and additional resources allocated for agent reviews in an effort to control fraud losses in the future.

The company continued to expand and strengthen its staff.

We look forward to a successful year with continued growth in all three states of operation.

CATIC Exchange Solutions, Inc.

Although challenging market conditions prevailed throughout the year, each of the company's business lines did show modest signs of recovery in 2010. While demand nationwide for like-kind exchange services remained low, CATIC Exchange Solutions, Inc. ("CESI") experienced a nearly 25% increase in exchange originations. This increase was driven in part by the specter of increased capital gains tax rates for 2011 and beyond. Although the increase in the number of exchanges was encouraging, interest earned on exchange proceeds actually decreased year-over-year due to historically low interest rates offered by depository institutions. These rates are important because the interest on exchange proceeds had been the single largest source of income for the company since its inception.

For the second year in a row, CESI increased its premiums written through the fiduciary bond program, obtaining a 48% increase in premiums from 2009. The company also continued to expand its portfolio of bonds for CATIC agents, and produced its first bond "handbook" for agents.

In 2010, CESI also generated income for the first time from its CATIC-agent Professional Liability Insurance (PLI) program, offered through Smith Brothers Insurance Company and Hanover Insurance Group. The goal of this program is to provide CATIC agents with superior PLI coverage at a very attractive premium. The success of the program can be seen with its 98% policy renewal rate by its insureds. Additionally, CESI began to issue Foreclosure Committee liability insurance policies in 2010 and by year-end had issued more than 100 policies for CATIC agents.

Overall, CESI increased operating revenue in 2010, while reducing operating expenses. However, the combination of reduced interest income and greater tax liability prevented CESI from showing a profit in 2010. The company believes, however, that it has positioned itself to make 2011 a better year.

Eastern Attorneys Services, Inc.

Eastern Attorneys Services, Inc. had another outstanding performance in 2010. It maintained its commitment to providing unparalleled service in Vermont. The Annual Continuing Legal Education Program attracted a record audience notwithstanding the slowdown in the real estate economy. The field staff installed and trained the entire agent population on the software updates mandated by changes to the regulations implementing the Real Estate Settlement Procedures Act (RESPA). In addition, the staff fielded a steady stream of telephone calls and e-mails from agents seeking underwriting and procedural assistance. This immediate access to expert, yet friendly, assistance is one of the hallmarks of EASI's success.

In financial terms, premiums written in Vermont grew from $5.9 million in 2009 to $6.7 million in 2010, a 13% increase. The company earned a 50.4% share of the Vermont title insurance premium market as of December 31, 2010. This achievement is testimony to the hard work and skill of the EASI staff.

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To the Board of Directors of
CATIC Financial, Inc.

We have audited the accompanying consolidated balance sheets of CATIC Financial, Inc. and Subsidiaries as of December 31, 2010, and 2009, and the related consolidated statements of operations and changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of CATIC Financial, Inc. and Subsidiaries' management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CATIC Financial, Inc. and Subsidiaries as of December 31, 2010, and 2009, and the results of their operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

CCR LLP

April 18, 2011

Glastonbury, Connecticut

CONSOLIDATED BALANCE SHEETS

CATIC Financial, Inc. and Subsidiaries

DECEMBER 31, 2010 AND 2009

	2010	2009
ASSETS		
Investments:		
Debt securities:		
Held-to-maturity, at amortized cost	$25,995,321	$28,974,501
Available-for-sale, at fair value	30,549,341	27,147,827
Equity securities, at fair value	5,275,794	5,478,602
Total investments	61,820,456	61,600,930
Cash and cash equivalents	4,849,369	4,746,080
Accounts, notes and other receivables, net	1,514,967	885,603
Accrued interest	563,739	628,395
Prepaid expenses	324,138	411,289
Federal income tax recoverable	17,160	88,010
Deferred income taxes, net	4,359,100	2,754,207
Premises and equipment, net	1,959,803	1,697,542
Title plant	810,376	810,376
Other assets, net	149,196	118,495
Total assets	$76,368,304	$73,740,927
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Policy claims and loss adjustment expenses	$25,559,194	$22,249,886
Accounts payable and accrued expenses	2,210,963	1,911,172
Deferred revenue	252,818	240,489
Notes payable	4,872,463	4,992,568
Total liabilities	32,895,438	29,394,115
STOCKHOLDERS' EQUITY		
Common stock	931,700	966,350
Additional paid-in capital	2,000,000	2,000,000
Retained earnings	40,377,907	41,631,137
Accumulated other comprehensive income (loss)	163,259	(250,675)
Total stockholders' equity	43,472,866	44,346,812
Total liabilities and stockholders' equity	$76,368,304	$73,740,927

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS & STOCKHOLDERS' EQUITY
CATIC Financial, Inc. and Subsidiaries

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009	2010	2009
REVENUES		
Title insurance premiums	$91,764,590	$76,745,422
Title and other service fees	3,571,144	2,969,325
Net investment income	1,964,969	2,134,556
Net realized gains on investments	351,303	106,743
Other revenue	669,003	779,201
Total revenue	98,321,009	82,735,247
EXPENSES		
Title insurance commissions	66,623,629	55,595,294
Compensation and benefits	14,299,552	13,257,822
Provision for policy claims and loss adjustment expenses	12,218,891	5,743,140
Other general and administrative expenses	5,910,492	5,772,901
Premium taxes	1,710,852	1,112,529
Depreciation and amortization	351,650	361,176
Interest	255,294	245,788
Total expenses	101,370,360	82,088,650
(Loss) income before income taxes	(3,049,351)	646,597
Income (benefit) tax expense	(1,796,121)	500,559
Net (loss) income	(1,253,230)	146,038
Other comprehensive income (loss):		
Unrealized gains on investments:		
Gross gains on available-for-sale securities	1,270,925	1,644,714
Less: net realized gains on available-for-sale securities	(351,303)	(92,696)
	919,622	1,552,018
Deferred income tax expense	310,265	527,688
	609,357	1,024,330
Change in defined benefit plan liability:		
Pension (expense) benefit	(296,096)	156,931
Deferred income tax (benefit) expense	(100,673)	53,357
	(195,423)	103,574
Net other comprehensive income	413,934	1,127,904
Comprehensive (loss) income	(839,296)	1,273,942
Net repurchases of common stock	(34,650)	(4,350)
(Decrease) increase in stockholders' equity	(873,946)	1,269,592
STOCKHOLDERS' EQUITY, beginning of year	44,346,812	43,077,220
STOCKHOLDERS' EQUITY, end of year	$43,472,866	$44,346,812

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
CATIC Financial, Inc. and Subsidiaries

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Premiums and other title insurance service fees received	$91,680,105	$76,731,035
Interest and dividends received	2,269,405	2,044,306
Other operating receipts	669,003	779,201
Commissions and other expenses paid	(85,488,066)	(72,108,814)
Policy claims and loss adjustment expenses paid	(8,909,583)	(5,626,254)
Interest expense paid	(255,294)	(245,788)
Income tax refunds received	52,486	479,793
Net cash provided by operating activities	18,056	2,053,479
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and maturity of investment securities	26,501,789	31,282,524
Purchases of premises and equipment	(571,631)	(159,763)
Purchases of investment securities	(25,690,170)	(35,105,706)
Net cash provided by (used in) investing activities	239,988	(3,982,945)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable	-	2,600,000
Net repurchases of common stock	(34,650)	(4,350)
Payments on notes payable	(120,105)	(1,613,402)
Net cash (used in) provided by financing activities	(154,755)	982,248
Net increase (decrease) in cash and cash equivalents	103,289	(947,218)
CASH AND CASH EQUIVALENTS, beginning of year	4,746,080	5,693,298
CASH AND CASH EQUIVALENTS, end of year	$ 4,849,369	$ 4,746,080

The accompanying notes are an integral part of the consolidated financial statements.

Note 1 – Nature of Business

CATIC Financial, Inc. and Subsidiares' (the "Company's") principal business is providing title insurance on residential and commercial properties in New England, New Jersey, New York and Pennsylvania.

Note 2 – Summary of Significant Accounting Policies

Principles of Consolidation – The consolidated financial statements include the accounts of CATIC Financial, Inc. (Financial) and its four wholly-owned operating subsidiaries: Connecticut Attorneys Title Insurance Company (CATIC) and New Jersey Title Insurance Company, Inc. (NJTIC) provide title insurance and related services; Eastern Attorneys Services, Inc. (EASI) provides title insurance services; and CATIC Exchange Solutions, Inc. (CESI) facilitates tax deferred property exchanges and is a licensed property-casualty insurance agency.

In addition, the consolidated financial statements include the accounts of CATIC Acquired Properties, LLC, a wholly-owned subsidiary of CATIC formed to hold and dispose of properties acquired in connection with claim settlements, and CATIC Exchange Facilitator, Inc., a wholly-owned subsidiary of CESI which was formed to facilitate tax deferred reverse property exchanges.

All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Significant estimates are made by management with regard to the valuation of accounts, notes and other receivables, and the reserve for policy claims and claim adjustment expenses. Actual results may differ from those estimates, and those differences may be material.

Cash and Cash Equivalents – The Company maintains its cash and cash equivalents in bank deposit or brokerage accounts of financial institutions which are periodically reviewed by senior management for financial stability. These funds include amounts owned by third parties, such as escrow deposits. Effective December 31, 2010, extending through December 31, 2012, all "non-interest-bearing transaction accounts" are fully insured by the Federal Deposit Insurance Corporation (FDIC), regardless of the balance of the account. Generally, the Company's cash and cash equivalents in interest-bearing accounts exceed FDIC depository insurance limits. Should one or more of the financial institutions at which the Company maintains deposits fail, there is no guarantee that the Company would recover the funds it has deposited, whether through FDIC coverage or otherwise. In the event of such failure, the Company could also be held liable for the funds owned by third parties even though such amounts are not considered assets of the Company (Note 12). Such events could be disruptive to the Company's business and could adversely affect the Company's liquidity, results of operations and financial condition. The Company has not experienced any losses in such cash and cash equivalents accounts.

Accounts Receivable and Revenue Recognition – Accounts receivable are recorded at their estimated realizable value, net of an allowance for uncollectible amounts. The Company extends credit to agents without requiring collateral. Receivables are written off after all efforts to collect them have been exhausted. The allowance for uncollectible amounts totaled $292,000 and $327,244, as of December 31, 2010 and 2009, respectively.

Title insurance premiums are recognized as policies and premiums from agents are received by the Company. Revenue is reported based on 40% of the actual amount of the gross, ratings-approved premiums remitted by Connecticut agents, but negotiated elsewhere.

Deferred revenue results from CATIC recognizing fee revenue in the period in which the related service is performed. Accordingly, service fees received are deferred until actual services are performed.

Investments – Debt securities are classified either as held-to-maturity and are carried at cost, net of amortization, or as available-for-sale and are carried at fair value. Debt securities are classified at the date of purchase. Equity securities are carried at fair value.

Unrealized gains and losses are included in accumulated other comprehensive income (loss), a component of stockholders' equity, net of income taxes. Realized gains or losses on the sale of investments are determined based on specific identification at the time of sale. Amortization of bond premiums or discounts is recognized using the effective interest rate method.

Title Plant – Title plant is carried at original cost. The costs of maintaining (updating) the title plant are charged to expense as incurred. A properly maintained title plant has an indefinite life and does not diminish in value with the passage of time. Accordingly, there is no provision for depreciation or amortization of the title plant. The Company periodically analyzes its title plant for impairment and has determined that fair value exceeds the carrying value. The Company's impairment analysis includes, but is not limited to, the effects of obsolescence, duplication, demand and other economic factors. No impairment loss on the title plant was recognized during 2010 or 2009.

Premises and Equipment – Premises and equipment are carried at cost, less accumulated depreciation. Furniture and equipment purchases of $1,000 or greater and major owned real estate renewals and improvements are charged to the premises and equipment accounts, while replacements, maintenance and repairs that do not improve or extend the life of the respective assets are expensed as incurred.

The Company capitalizes costs of developing internal-use software. Such costs include the cost of externally acquired goods and services and payroll and payroll-related costs of employees who are directly associated with the development of the internal-use software. During 2010, the Company capitalized costs of developing internal-use software totaling $347,879.

The Company provides for depreciation and amortization of premises and equipment using the straight-line method by charging against earnings amounts sufficient to amortize the costs of properties over their estimated useful lives as follows:

Building and improvements	30-40 years
Furniture and equipment	3-5 years
Internal-use software	3-5 years

Other Assets – The Company includes deposits and deferred lease costs in other assets. Deferred lease costs are being amortized using the straight-line method over the term of the related lease. Amortization expense for the years ended December 31, 2010 and 2009 was $42,280 and $37,825, respectively. The remaining costs of $8,897 will be amortized in 2011.

Policy Claims and Loss Adjustment Expenses – The Company provides for title insurance losses based upon its historical experience by a charge to expense when the related premium revenue is recognized. The reserve for known and incurred but not reported (IBNR) claims reflects management's best estimate of the total costs required to settle all claims reported to the Company and IBNR claims. The process of assessing the IBNR reserve involves evaluation of the results of an independent actuarial study. Current economic and business trends are also reviewed and used in the reserve analysis. These include real estate and mortgage market conditions, changes in residential and commercial real estate values, and changes in the levels of defaults and foreclosures that may affect claims levels and patterns of emergence, as well as Company-specific factors that may be relevant to past and future claims experience. Results from the analysis include, but are not limited to, a range of IBNR reserve estimates and a single point estimate for the IBNR as of the consolidated balance sheet date. The third-party actuary's analysis uses generally accepted actuarial methods and is used to validate the accuracy of the total of the known claims reserves. The Company uses the point estimate of the projected IBNR from the third-party actuary's analysis, considering it to be the best estimate of the total amount required for the IBNR reserve. It is likely that a change in the estimate will occur in future years and such change may be material.

Escrow Funds – In the normal course of business, the Company receives and holds escrow funds for certain transactions or disputes with title. The Company holds these funds as an agent and does not consider them to be assets or liabilities of the Company therefore, the amounts are not included in the consolidated balance sheets.

Leases – Rentals that convey merely the right to use property are charged to expense as incurred.

Advertising – The Company expenses production costs of advertising the first time the advertising takes place. Advertising expense for the years ended December 31, 2010 and 2009 was $483,213 and $443,263, respectively.

Income and Premium Taxes – Income tax expense includes federal and state income taxes currently payable and deferred income taxes. The Company provides for deferred taxes on temporary differences arising from assets and liabilities whose bases are different for financial reporting and income tax purposes. These differences relate primarily to different depreciation and loss reserve methods used for financial reporting and income tax purposes, unrealized gains (losses) on investments and the recognition of net operating loss carryforwards. A valuation allowance is provided to the extent the Company cannot determine that the ultimate realization of net deferred tax assets is more likely than not.

In lieu of state income taxes, CATIC and NJTIC pay state premium taxes based on premiums written. The other subsidiaries continue to be taxed on their respective state income.

Fair Value Measurements – Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Authoritative accounting guidance establishes a hierarchy of valuation techniques used to determine the fair value of assets and liabilities based upon whether the inputs to those valuation techniques reflect assumptions other market participants would use based upon market data obtained from independent sources (also referred to as observable inputs). Authoritative accounting guidance requires that the valuation techniques used to measure fair value maximize the use of observable inputs and minimize the use of unobservable inputs The following summarizes the fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2 – Inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices of identical or similar assets or liabilities in markets that are not active;
- Inputs other than quoted prices that are observable for the asset or liability and;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Inputs that are unobservable for the asset or liability.

The level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement.

As of December 31, 2010 and 2009, the Company has determined that its assets and liabilities required to be measured and disclosed at fair value consist solely of debt securities classified as available-for-sale, equity securities and financial assets underlying NJTIC's defined benefit plan.

Reclassifications – Certain prior year amounts have been reclassified to conform to the current year presentation.

Note 3 – Investments

Details on carrying value and alternate value of the Company's debt and equity securities at December 31, 2010 and 2009, follow. Carrying value is amortized cost for held-to-maturity debt securities and fair value for available-for-sale debt securities and equity securities. Alternate values are fair value for held-to-maturity debt securities and cost for available-for-sale debt securities and equity securities.

	2010		2009	
	Carrying Value	Alternate Value	Carrying Value	Alternate Value
Held-to-maturity debt securities:				
Tax-exempt securities	$9,814,538	$10,103,848	$10,381,893	$10,694,326
Government bonds	10,267,761	10,855,158	12,147,025	12,541,611
Corporate bonds	5,913,022	6,314,831	6,445,583	6,762,209
	25,995,321	$27,273,837	28,974,501	$29,998,146
Available-for-sale debt securities:				
Tax-exempt securities	3,804,710	$ 3,960,291	1,955,403	$ 1,933,755
Government bonds	9,948,706	9,855,327	7,934,409	7,919,903
Corporate bonds	16,795,925	16,411,203	17,258,015	16,971,417
	30,549,341	$30,226,821	27,147,827	$26,825,075
Equity securities	5,275,794	$ 5,018,219	5,478,602	$ 6,140,881
	$61,820,456		$61,600,930	

The following table sets forth the unrealized gain and loss positions of the Company's investments at December 31, 2010 and 2009:

	2010		2009	
	Unrealized Gains	Unrealized Losses	Unrealized Gains	Unrealized Losses
Held-to-maturity debt securities:				
Tax-exempt securities	$ 299,090	$ (9,780)	$ 348,069	$ (35,636)
Government bonds	602,177	(14,780)	488,149	(93,563)
Corporate bonds	401,809	–	316,626	–
	$1,303,076	$ (24,560)	$1,152,844	$ (129,199)
Available-for-sale debt securities:				
Tax-exempt securities	$ -	$ (155,581)	$ 27,852	$ (6,204)
Government bonds	154,411	(61,032)	97,800	(83,294)
Corporate bonds	539,600	(154,878)	381,170	(94,572)
	694,011	(371,491)	506,822	(184,070)
Equity securities	304,676	(47,101)	16,189	(678,468)
	$ 998,687	$ (418,592)	$ 523,011	$(862,538)
Net unrealized gains (losses) on available-for-sale debt securities and equity securities	$ 580,095		$(339,527)	
Deferred income tax provision (benefit)	194,826		(115,439)	
Net unrealized gains (losses) included in accumulated other comprehensive income (loss)	$ 385,269		$(224,088)	

Changes in the unrealized gain and loss positions of the Company's investments are included in other comprehensive (loss) income for the years ended December 31, 2010 and 2009.

The following table sets forth, as of December 31, 2010, investments that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 months or longer for which other-than-temporary impairments have not been recognized.

	Less than 12 Months		12 Months or Greater	
	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value
Held-to-maturity debt securities:				
Tax-exempt securities	$ (6,343)	$849,462	$ (3,437)	$ 524,035
Government bonds	(25)	812	(14,755)	797,752
	$ (6,368)	$ 850,274	$(18,192)	$1,321,787
Available-for-sale debt securities:				
Tax-exempt securities	$(155,581)	$3,804,710	$ –	$ –
Government bonds	(61,032)	3,066,572	–	–
Corporate bonds	(150,259)	6,223,853	(4,619)	145,381
	(366,872)	13,095,135	(4,619)	145,381
Equity securities	(47,101)	322,064	–	–
	$ (413,973)	$13,417,199	$ (4,619)	$145,381

Unrealized losses in the Company's portfolios have been primarily caused by current economic circumstances in the United States and globally. The loss positions of the securities were not viewed to be due to credit-related issues resulting from financial difficulty of the issuers. As of December 31, 2010, the average fixed-income rating of the portfolio was AA. The Company has no history of selling similar underwater securities before recovery. For the most part, except for certain tax-driven or adverse credit change reasons, the Company employs a buy and hold philosophy for its portfolios. Further, the Company believes it has the financial strength and the ability to hold securities in an unrealized loss position until their value is recovered. There are no regulatory obligations that would require the sale of these positions. Although the current real estate market and the resulting need for title insurance transactions is depressed, management does not believe these adverse business conditions will force the Company to sell investments to meet working capital requirements. Management has concluded that the Company has sufficient cash to support operations and that the Company has the ability to hold the securities until recovery of full value. During the years ended December 31, 2010 and 2009, the Company recognized no other-than-temporary impairments of investments.

The following table sets forth the amortized cost and fair value of debt securities at December 31, 2010 by contractual or expected maturity. Actual maturities will differ from contractual or expected maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Held-to-Maturity		Available-for-Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
One year or less	$ 3,387,929	$ 3,430,436	$ 1,356,977	$ 1,359,112
One to five years	11,501,367	12,276,533	13,255,220	13,468,417
Five to ten years	9,854,992	10,222,212	14,439,781	14,548,427
After ten years	1,251,033	1,344,656	1,174,843	1,173,385
	$25,995,321	$27,273,837	$30,226,821	$30,549,341

As of December 31, 2010 and 2009, debt securities classified as held-to-maturity with an amortized cost of $562,128 and $654,795, respectively, were pledged as collateral to conduct title insurance business where required; and debt securities with an amortized cost of $2,545,261 and $2,570,261, respectively, were pledged as collateral for a note payable to the Federal Home Loan Bank of Boston (Note 7).

The components of net realized investment gains (losses) presented in the accompanying statements of operations and changes in stockholders' equity for the years ended December 31, 2010 and 2009 were as follows:

	2010		2009	
	Realized Gains	Realized Losses	Realized Gains	Realized Losses
Held-to-maturity debt securities	$ 5,232		$ 14,407	
Available-for-sale debt securities	826,743	$ - (18,274)	563,202	$ - (488,944)
Equity securities	11,220	(473,618)	360,547	(342,469)
	$843,195	$(491,892)	$938,156	$(831,413)
Net realized investment gains	$351,303		$106,743	

Net investment income presented in the accompanying statements of operations and changes in stockholders' equity for the years ended December 31, 2010 and 2009 consists of the following:

	2010	2009
Interest and dividend income from:		
Debt securities	$2,093,814	$2,246,708
Equity securities	57,457	69,900
Cash and cash equivalents	16,251	14,403
	2,167,522	2,331,011
Investment expenses	(202,553)	(196,455)
	$1,964,969	$2,134,556

The following table sets forth the Company's investments measured at fair value on a recurring basis using Level 1 and Level 2 inputs as of December 31, 2010 and 2009:

	2010		2009	
	Level 1	Level 2	Level 1	Level 2
Available-for-sale debt securites:				
Tax-exempt securities	$ -	$ 3,804,710	$ -	$ 1,955,403
Government bonds	-	9,948,706	-	7,934,409
Corporate bonds	-	16,795,925	-	17,258,015
	-	30,549,341	-	27,174,827
Equity securites	5,275,794	-	5,478,602	-
	$5,274,794	$30,549,341	$5,478,602	$27,147,827

As of December 31, 2010 and 2009, the Company's debt securities classified as available-for-sale are measured based upon quoted prices for similar assets in active markets and the Company's equity securities are measured based upon quoted prices for identical assets in active markets. The Company had no investments measured at fair value using Level 3 inputs as of December 31, 2010 and 2009.

Note 4 – Premises and Equipment

Premises and equipment at December 31, 2010 and 2009, are summarized by major classification as follows:

	2010	2009
Land and land improvements	$ 403,162	$ 403,162
Building and improvements	3,930,270	3,925,508
Furniture and equipment	4,555,514	4,349,520
Internal-use software	347,879	
	9,236,825	8,678,190
Less: accumulated depreciation and amortization	7,277,022	6,980,648
	$1,959,803	$1,697,542

Depreciation and amortization expense of premises and equipment was $309,370 and $323,351 for the years ended December 31, 2010 and 2009, respectively.

Note 5 – Policy Claims and Loss Adjustment Expenses

Activity affecting the Company's policy claims and loss adjustment expense reserves for the years ended December 31, 2010 and 2009 is summarized as follows:

	2010	2009
Incurred (recovered) related to:		
Current year	$10,567,580	$ 5,935,784
Prior years	1,651,311	(192,644)
	12,218,891	5,743,140
Paid related to:		
Current year	4,048,105	573,784
Prior years	4,861,478	5,052,470
	8,909,583	5,626,254
Increase in liability	3,309,308	116,886
Policy claims and loss adjustment expense reserve–beginning of year	22,249,886	22,133,000
Policy claims and loss adjustment expense reserve–end of year	$25,559,194	$22,249,886

Included in loss and loss adjustment expenses for the year ended December 31, 2010 are losses from agent or attorney defalcations on policies issued during 2010 totaling $3,480,000, of which $2,560,000 was paid during 2010.

The provision for policy claims and loss adjustment expenses related to prior years increased by $1,651,311 in 2010 as a result of higher than anticipated losses on policies issued prior to 2010 in connection with attorney and agent defalcations. Specifically, included for the year ended December 31, 2010 are losses from agent or attorney defalcations on policies issued prior to 2010 totaling $1,660,000, of which $1,500,000 was paid during 2010. The provision for policy claims and loss adjustment expenses related to prior years decreased by $192,644 in 2009 as a result of changes in estimates of anticipated losses incurred in prior years.

The nature of title insurance makes its claims experience particularly sensitive to economic events such as changes in interest rates or declines in home sales. The downturn in the real estate market, and problems related to defaults on mortgage payments, foreclosures, etc., have resulted in substantial unexpected claim activity from lenders, which dramatically increases title insurers' claim liabilities. Events such as mortgage fraud and agent defalcations have been on the rise, and if this trend continues, they can substantially and unexpectedly cause increases in estimates of losses. These risk factors, coupled with the variability that is inherent in any unpaid claims estimate, could result in a material deviation between actual and estimated claims.

Note 6 – Reinsurance

CATIC and NJTIC have separate treaties covering their respective reinsurance needs.

CATIC cedes title policy risks to and from other insurance companies in order to limit and diversify its risk. As of December 31, 2010, CATIC had a reinsurance treaty in place under which CATIC retained, without reinsurance, the first $5 million of loss and 30% of loss in excess of $5 million up to $21.7 million on any individual title policy. CATIC then ceded 100% of loss in excess of $21.7 million under the treaty. Thus, the maximum retention by CATIC on any individual title policy was $10 million.

On January 1, 2011, CATIC entered into a new reinsurance treaty under which CATIC retains, without reinsurance, the first $7.5 million of loss and cedes 100% of the loss in excess of $7.5 million up to $27.5 million. On January 20, 2011, this new reinsurance treaty was cancelled with an effective cancellation date of April 20, 2011. Beginning April 21, 2011, CATIC will use the facultative reinsurance market to cede exposures in excess of $10 million.

As of December 31, 2010, NJTIC had a reinsurance treaty in place with CATIC under which NJTIC retained, without reinsurance, the first $3 million of loss on any individual title policy. CATIC assumed 30% of the $33 million excess over $3 million, and an unaffiliated title insurance company assumed the remaining

70% of the $33 million excess over $3 million and 100% of the losses in excess of $36 million up to $50 million.

On January 1, 2011, NJTIC entered into a new agreement with CATIC, under which CATIC agreed to assume $8 million of loss in excess of $2 million on any individual title policy.

Due to statutory regulatory restraints, the Company is restricted to purchasing reinsurance from other title insurance companies. Consequently, the Company purchased virtually all its title insurance from one third-party title insurance company, which has received a Fitch Ratings Financial Stability Rating of A and an A.M. Best rating of A, ratings that are indicative of an ability to meet its obligations. The Company remains liable for loss to the extent that the reinsuring company cannot meet its obligations under reinsurance agreements.

The Company has not paid or recovered any reinsurance losses during the years ended December 31, 2010 and 2009. The total amount of premiums for assumed and ceded risks was less than 5% of title insurance premiums.

Note 7 – Debt

Notes Payable

The following notes are included in notes payable at December 31, 2010 and 2009:

	2010	2009
Note payable, monthly payments of interest only at a fixed rate of 4.58%, principal due February 2019	$2,600,000	$2,600,000
Mortgage note payable in monthly installments of $21,222 including interest at 5.68%, through April 2013, with a balloon principal payment due at that time	2,272,463	2,392,568
	$4,872,463	$4,992,568

CATIC is a member of the Federal Home Loan Bank of Boston (FHLBB). Through its membership, on February 18, 2009, CATIC borrowed $2.6 million from the FHLBB, for ten years at a fixed rate of 4.58%. The loan requires monthly payments of interest only through January 2019, with the outstanding principal balance totaling $2.6 million due in February 2019. The loan is collateralized by certain bonds on deposit with the FHLBB (Note 3). As further described in Note 10, the proceeds from this loan were used to partially fund a dividend paid by CATIC to Financial in March 2009. The purpose of this dividend was to provide funding to Financial so that it could provide funding to NJTIC necessary to redeem a $1.5 million surplus note due to its former owner and to provide NJTIC with additional working capital. Interest expense totaled $120,734 and $104,526 for the years ended December 31, 2010 and 2009, respectively.

The mortgage note is payable by Financial and is collateralized by the Company's home office land and building in Rocky Hill, Connecticut. The mortgage note contains certain financial and non-financial covenants, non-compliance with which would create an event of default and provide the bank with the right to cancel the mortgage note and demand repayment prior to the maturity date. As of December 31, 2010, the Company was not in compliance with a financial covenant that is tested annually. However, the Company has received a waiver letter from Webster Bank waiving its right to exercise its remedies in default for the specific instance of noncompliance existing at December 31, 2010. Interest expense totaled $134,560 and $141,262 for the years ended December 31, 2010 and 2009, respectively.

Expected maturities of the notes payable are as follows:

Year ending December 31,	
2011	$ 129,344
2012	136,865
2013	2,006,254
2014	–
2015	–
2016 and thereafter	2,600,000
	$4,872,463

Line of Credit

CATIC has a $1,500,000 line of credit available through a national commercial bank with interest at LIBOR plus 100 basis points or at the bank's prime rate, whichever rate CATIC chooses at drawdown. The drawdown period under this agreement expired February 1, 2011, but was extended through February 1, 2012. The line is uncollateralized and was issued under the general credit of CATIC. The line contains various financial and other covenants as are customary in commercial arrangements of this type. There was no outstanding balance at December 31, 2010 and 2009.

Note 8 – Benefit plans

401(k) Savings and Profit-Sharing Plan

The Company has a 401(k) savings and profit-sharing plan that covers substantially all employees subject to age and service requirements. The Company matches a portion of each employee's contributions to the plan and also provides for additional, discretionary profit-sharing contributions at the sole discretion of the Board of Directors. Company contributions to the 401(k) plan for the years ended December 31, 2010 and 2009 totaled $442,879 and $326,878, respectively.

Defined Benefit Plan

NJTIC maintains a noncontributory defined benefit retirement plan. Effective July 31, 1993, NJTIC froze the plan with no further accrual of future benefits and no additional participants entering the plan. NJTIC's funding policy is to contribute annually an amount within the permitted ranges as determined by the plan's independent, third-party actuary. As of December 31, 2010 and 2009, the assets of the plan are generally invested in two group pension contracts with a domestic life insurance company and in various mutual fund investments.

For the years 2010 and 2009, the Company used a rate of 7.5% in calculating the expected long-term rate of return on plan assets. At December 31, 2010 and 2009, NJTIC used rates of 5.7% and 7.5%, respectively, in calculating the discount on the plan benefit obligation.

The following tables set forth the component of the net periodic pension cost (benefit) recognized as expense and directly in stockholders' equity:

	2010	2009
Cost (benefit) charged (credited) to expense:		
Interest cost	$87,267	$94,699
Expected return on plan assets	(98,909)	(90,850)
Amortization of transition assets	(4,127)	(4,127)
Amortization of actuarial net loss	21,082	3,772
Total for year	$ 5,313	$ 3,494

	2010	2009
Cost (benefit) charged (credited) to stockholders' equity:		
Actuarial loss (gain)	$317,406	$ (70,589)
Expected return on plan assets greater than actual return on plan assets	(4,355)	(86,697)
Amortization of actuarial net loss	(21,082)	(3,772)
Amortization of transition assets	4,127	4,127
	296,096	(156,931)
Deferred income tax (benefit) expense	(100,673)	53,357
	$195,423	$(103,574)

The following table sets forth the changes in the plan benefit obligation, the changes in the fair value of plan assets and the changes in the funded status of the plan's benefit obligation, which is the difference between the plan benefit obligation and the fair value of plan assets, for the years ended December 31, 2010 and 2009:

	2010	2009
Interest cost	$ 87,267	$ 94,699
Actuarial loss (gain)	317,406	(70,589)
Benefits paid	(145,101)	(142,187)
Change in plan benefit obligation	259,572	(118,077)
Benefit obligation–beginning of year	1,292,189	1,410,266
Benefit obligaton–end of year	$1,551,761	1,292,189
Actual return on plan assets	$ 103,264	$ 177,547
Employer contributions	54,807	44,124
Benefits paid	(145,101)	(142,187)
Change in fair value of plan assets	12,970	79,484
Fair value of plan assets – beginning of year	1,359,755	1,280,271
Fair value of plan assets – end of year	$1,372,725	$1,359,755
Employer contribution	$ 54,807	$ 44,124
Expense recognized in operations	(5,313)	(3,494)
	49,494	40,630
(Expense) benefit (charged) credited directly to other comprehensive income (loss)	(296,096)	156,931
	(246,602)	197,561
Funded status – beginning of year	67,566	(129,995)
Funded status – end of year	$ (179,036)	$ 67,566

The following table sets forth the components of the plan funded status recognized directly in accumulated other comprehensive income (loss). The estimated pre-tax amount that will be amortized as a charge to expense in 2011 is $17,287, consisting of amortization of cumulative actuarial net loss ($21,414 charge) and amortization of transition asset ($4,127 benefit).

	2010	2009
Cumulative actuarial net loss	$ (384,502)	$ (92,533)
Net transition asset	48,123	52,250
	(336,379)	(40,283)
Deferred income tax asset	114,369	13,696
	$ (222,010)	$(26,587)

The following table sets forth the plan assets measured at fair value using Level 1 and Level 2 inputs as of December 31, 2010 and 2009:

	2010		2009	
	Level 1	Level 2	Level 1	Level 2
Cash equivalents	$117,976	$ –	$118,379	$ –
Equity securities	657,638	–	627,888	–
Debt securites	–	137,142	–	127,484
	$775,614	$137,142	$746,267	$127,484

The following table sets forth the Plan's investments measured at fair value using Level 3 inputs as of December 31, 2010 and 2009 and the changes in the fair value of investments measured at fair value using Level 3 inputs for the years ended December 31, 2010 and 2009:

	2010	2009
Guaranteed investment contracts		
Change in fair value	$ 20,941	$ 2,119
Dividends received and reinvested	13,798	19,826
Fees paid	(3,773)	(3,773)
Transfers out of Level 3	(20,692)	(24,640)
Benefits paid	(36,309)	(36,309)
	(26,035)	(42,777)
Balance—beginning of year	486,004	528,781
Balance—end of year	$459,969	$486,004

As of December 31, 2010 and 2009, the plan's equity securities are measured based upon quoted prices for identical assets in active markets, the plan's debt securities are measured based upon quoted prices for similar assets in active markets and the plan's investment in a guaranteed investment contract is valued using unobservable inputs.

Estimated benefit payments expected to be paid by rthe Company total $1,386,021 as follows:

Year ending December 31,	
2011	$152,715
2012	150,304
2013	147,441
2014	146,010
2015	141,829
2016 through 2020	647,722
	$1,386,021

Note 9– Income Taxes

Income tax (benefit) expense applicable to net (loss) income and changes in stockholders' equity were as follows:

	2010	2009
Current income taxes:		
Federal	$ 2,744	$ 15,000
State	15,620	13,438
	18,364	28,438
Deferred income tax (benefit) expense applicable to net (loss) income	(1,814,485)	472,121
	(1,796,121)	500,559
Deferred income tax expense (benefit) applicable to other comprehensive (loss) income:		
Net change in unrealized gains and losses on investments	310,265	527,688
Change in defined benefit plan liability	(100,673)	53,357
	209,592	581,045
Total income tax expense (benefit) expense applicable to comprehensive (loss) income	$(1,586,529)	$1,081,604

Income tax (benefit) expense applicable to net (loss) income and other comprehensive (loss) income differs from that which would be obtained by appyling the statutory federal income tax rate to income (loss) before taxes. The significant items causing the difference are as follows:

	2010 Amount	2010 Percent	2009 Amount	2009 Percent
Provision computed at statutory rate	$(1,036,779)	(34)%	$ 219,843	34%
Tax-exempt interest and dividends	(152,054)	(5)	(146,920)	(23)
Other permanent differences	80,653	2	79,083	12
Valuation allowance	(478,860)	(16)	(10,688)	(2)
Other	511	-	940,286	145
	$(1,586,529)	(53)%	$1,081,604	166%

Deferred income tax assets and liabilities arising from temporary differences between financial accounting income and taxable income and the tax character of such differences consists of the following at December 31, 2010 and 2009:

	2010	2009
Deferred tax assets:		
Ordinary:		
Policy claims and claim adjustment expenses	$2,057,532	$1,793,118
Net operating loss carry-forwards	2,449,235	1,391,159
Defined benefit plan cost adjustment charged to accumulateed other comprehensive income (loss)	114,369	13,696
Compensated absences and retirement contracts	133,056	145,785
Alternative minimum tax credit carry-forwards	17,154	17,154
Depreciation	2,249	–
Other	96,511	111,711
	4,870,106	3,472,623
Valuation allowance	(188,735)	(667,595)
	4,681,371	2,805,028
Capital:		
Unrealized losses on investments charged to accumulated other comprehensive income (loss)	–	115,439
Other-than-temporary impairments on investments	–	62,164
	–	177,603
	4,681,371	2,982,631
Deferred tax liabilities:		
Ordinary:		
Prepaid expenses	127,445	186,319
Depreciation	–	42,105
	127,445	228,424
Capital:		
Unrealized gains on investments charged to accumulated other comprehensive income (loss)	194,826	–
Total deferred tax liabilities	322,271	228,424
Net deferred tax assets	$4,359,100	$2,754,207

As of December 31, 2010, the Company had the following net operating loss carry-forwards available for tax purposes:

Year of Origin	Year of Expiration	Amount
1996	2011	$1,014,266
1997	2012	245,957
2000	2020	823,788
2008	2028	1,670,561
2010	2030	3,196,395
		$6,950,967

Net operating loss carry-forwards originating in tax years 1996, 1997 and 2000, totaling $2,084,011, are subject to an annual limitation of $235,040 as a result of the change in NJTIC's ownership upon its purchase by Financial in 2006. As a result of this limitation, the Company anticipates that net operating loss carry-forwards originating in tax years 1996 and 1997, totaling $553,103, will expire unused and has therefore established a valuation allowance against these net operating loss carry-forwards as of December 31, 2010.

As of December 31, 2010, the Company has no federal income taxes incurred in prior years available for recoupment in the event of future losses.

The Company is subject to federal income tax as well as income tax of certain state jurisdictions. The Company has not been audited by the Internal Revenue Service or any states in connection with income taxes. As of December 31, 2010, the Company's tax filings for the years 2007 through 2009 remain open to examination by the Internal Revenue Service and state tax authorities.

The Company files a consolidated federal income tax return. The Company has a written tax agreement, approved by its Board of Directors, which sets forth the manner in which the total combined federal income tax is allocated to each entity which is party to the consolidation. Pursuant to this agreement, the Company has the right to recover federal income taxes paid in prior years in the event of net losses that it may incur, or to recover federal income taxes from its net losses carried forward, which offset future net income subject to federal income taxes.

The following entities are included in the consolidated federal income tax return:

CATIC Financial, Inc. – Parent holding company
Connecticut Attorneys Title Insurance Company
CATIC Acquired Properties, LLC
CATIC Exchange Solutions, Inc.
CATIC Exchange Facilitator, Inc.
Eastern Attorneys Services, Inc.
New Jersey Title Insurance Company

Note 10 – Stockholders' Equity

Common stock

Common stock consists of 50,000 shares authorized ($50 par value) and 3,634 and 4,327 shares issued and outstanding at December 31, 2010 and 2009, respectively. Common stock also includes $750,000 of capitalized retained earnings. Share ownership in the corporation is limited to individuals who are licensed to practice law and to partnerships and professional corporations comprised of individuals who are licensed to practice law. Shares are repurchased by the corporation at par value if the stockholder surrenders the stock, ceases to be qualified as a stockholder, or owns more than the maximum number of shares allowed by the bylaws. No stockholder is allowed to receive any dividends.

Dividends

Without prior approval of its two domiciliary states, dividends to Financial from CATIC and NJTIC are limited by the laws of Connecticut and New Jersey, which amounts are based on restrictions relating to either the greater of 10% of statutory capital and surplus as of the preceding year-end, or the net gain from operations in the previous year. Further, NJTIC cannot pay interest on its surplus notes to Financial without first obtaining permission from its regulator, the New Jersey Department of Banking and Insurance.

As filed with the Connecticut Insurance Department, CATIC reported a statutory capital and surplus of $35,034,519 and $37,406,582 as of December 31, 2010 and 2009, respectively, and a net loss from operations of $5,390,571 and $1,378,484 for the years ended December 31, 2010 and 2009, respectively.

As filed with the New Jersey Department of Banking and Insurance, NJTIC reported a statutory capital and surplus of $3,083,611 and $4,339,472 as of December 31, 2010, and 2009, respectively and net loss from operations of $1,048,469 for the year ended December 31, 2010 and net income from operations of $91,749 for the year ended December 31, 2009.

On March 1, 2009, CATIC paid a $3,950,000 dividend to Financial in anticipation of Financial purchasing a new issuance of surplus notes of $4.0 million from NJTIC. Such dividend received the prior consent of the Connecticut Insurance Department. There were no other dividends paid by CATIC or NJTIC during 2010 and 2009.

Note 11 – Cash Flows

The following table provides a reconciliation of net (loss) income to net cash provided by operating activities for the years ended December 31, 2010 and 2009.

	2010	2009
Net (loss) income	$(1,253,230)	$ 146,038
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	351,650	361,176
Amortization of bond premium	239,780	125,106
Deferred income taxes	(1,814,485)	472,121
Net realized gains on investments	(351,303)	(106,743)
(Increase) decrease in operating assets:		
Accounts, notes and other receivables	(629,364)	(110,791)
Accrued interest	64,656	(77,828)
Prepaid expenses	87,151	(153,122)
Federal income taxes recoverable	70,850	494,793
Other assets	(72,981)	2,529
Increase (decrease) in operating liabilities:		
Policy claims and claim adjustment expenses	3,309,308	116,886
Accounts payable and accrued expenses	3,695	697,495
Deferred revenue	12,329	85,819
Net cash provided by operating activities	$ 18,056	$2,053,479

Note 12 – Escrow and Reverse Like-Kind Exchange Transactions

The Company administers escrow and trust deposits representing undisbursed amounts received for indemnities against specific title risks. The amount of escrow assets being held by CATIC and NJTIC totaled $2,418,208 and $286,956 at December 31, 2010 and $3,920,104 and $780,531 at December 31, 2009, respectively. The escrow amounts are not considered assets or liabilities of the Company and are, therefore, excluded from the accompanying consolidated balance sheets.

Through CESI, the Company facilitates tax-deferred property exchanges for customers pursuant to Section 1031 of the Internal Revenue Code. Acting as a qualified intermediary, CESI holds the proceeds from sales transactions until a qualifying acquisition occurs, thereby assisting its customers in deferring the recognition of taxable income. The amount of escrow assets being held by CESI at December 31, 2010 and 2009, was $8,305,408 and $3,309,471, respectively. The escrow amounts are not considered assets or liabilities of the Company and are, therefore, excluded from the accompanying consolidated balance sheets.

Through CEFI, the Company also facilitates tax-deferred property exchanges for customers pursuant to Revenue Procedure 2000-37, so-called "reverse exchanges." These reverse exchanges require the Company to take title to the customer's property until a qualifying disposition occurs. Through these reverse exchanges, the Company acquires property on behalf of customers using funds provided by the customers or from non-recourse loans arranged by the customer. The property is triple-net leased to the customer, and the customer fully indemnifies the Company against all risks associated with ownership of the property. The total purchase price of property held under these arrangements was approximately $650,000 and $347,648 at December 31, 2010 and 2009, respectively. These properties are not considered assets of the Company and are, therefore, excluded from the accompanying consolidated balance sheets.

Note 13 – Leases

The Company is obligated under leases for office space and computer equipment through March 2014. The leases also require the Company to pay its pro-rata share of operating expense increases. Total rent expense under these operating leases totaled $506,524 and $488,646 in 2010 and 2009, respectively, and is recorded in other general and administrative expenses in the consolidated statements of operations and changes in stockholders' equity.

At December 31, 2010, four third-party tenants are obligated to the Company for real estate leases through 2012. Total rental income under these leases was $252,730 and $183,975 for 2010 and 2009, respectively, and is netted against other general and administrative expenses in the consolidated statements of operations and changes in stockholders' equity.

Future minimum lease payments and rental income are as follows:

Year ending December 31,	Lease Expense	Rental Income	Net
2011	$ 726,429	$232,670	$ 493,759
2012	338,718	153,733	184,985
2013	190,589	132,481	58,108
2014	148,806	103,372	45,434
2015	10,567	-	10,567
	$1,415,109	$622,256	$ 792,853

Note 14 – Related Parties

Certain agents of CATIC are also stockholders of Financial. Agents receive title insurance commissions in the ordinary course of business. During the periods covered by these statements, no agent received commissions of more than one percent of total commissions. There were no amounts loaned to any directors, officers or stockholders during the two years covered by these consolidated financial statements.

Certain agents of CATIC are also directors of CATIC and Financial. Except for the President and Chief Executive Officer, all board members of CATIC and Financial are CATIC agents.

Note 15 – Litigation

In the ordinary course of business, claims have been made against the Company. Certain of the claims are insured but subject to varying deductibles and certain claims may be uninsured. The amount of liability, if any, from these claims cannot be estimated at this time, but management is of the opinion that the outcome of the claims will not have a material effect on the Company's financial position or operations.

Note 16 – Susequent Events

As further described in Note 6, on January 1, 2011, CATIC entered into new treaties for the cessation of reinsurance to an unaffiliated title insurance company and for the assumption of reinsurance from NJTIC.

Subsequent events were evaluated through April 18, 2011, which is the date the consolidated financial statements were available to be issued.

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William Rosa

Officers

Anthony M. Lombardi, President
David R. Veleber, Vice President
Richard A. Lawrence, Treasurer
Edmond R. Browne, Secretary
Beverly A. Ambulos, Assistant Secretary

New Jersey title Insurance Company

Board of Directors

George H. Jackson, III, Chairman
Leo P. Carroll
Allen J. Exelby
Robert L. Fisher
Carl R. Samson
Richard J. Patterson

Officers

Allen J. Exelby, Chief Executive Officer
Carl R. Samson, President and Chief Operating Officer
Frank A. Melchior, Senior Vice President
Richard A. Lawrence, Vice President and Treasurer
David E. Ewan, Vice President
Edmond R. Browne, Secretary
Pamela Santoro, Assistant Secretary
Michael A. Petrock, Jr., Controller
John H. Kowal, Assistant Controller

Eastern Attorneys Services, Inc.

Board of Directors

Richard A. Case, Chairman
George H. Jackson, III
Robert C. Roesler
Peter W. Hoops
Scott B. Franklin

Officers

Andrew D. Mikell, President
Richard A. Lawrence, Treasurer
Edmond R. Browne, Secretary