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To the Board of Directors of
CATIC Financial, Inc.

We have audited the accompanying consolidated balance sheet of CATIC Financial, Inc. and Subsidiaries as of December 31, 2009, and the related consolidated statements of operations and stockholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of CATIC Financial, Inc. and Subsidiaries as of and for the year ended December 31, 2008 were audited by other auditors whose report dated April 24, 2009, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 audit provides 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, 2009, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying supplemental information listed in the table of contents for the year ended December 31, 2009 is presented for the purpose of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole. The accompanying supplemental information listed in the table of contents for the year ended December 31, 2008 was subjected to the auditing procedures applied in the audit of the basic consolidated financial statements by other auditors, who stated that, in their opinion, such information was fairly stated in all material respects in relation to the basic consolidated financial statements for the year ended December 31, 2008 taken as a whole.

CCR LLP

April 14, 2010
Glastonbury, Connecticut

CONSOLIDATED BALANCE SHEETS

CATIC Financial, Inc. and Subsidiaries

DECEMBER 31, 2009 AND 2008

	2009	2008
ASSETS		
Investments:		
Debt securities:		
Held-to-maturity, at amortized cost	$28,974,501	$27,431,555
Available-for-sale, at fair value	27,147,827	24,547,522
Equity securities, at fair value	5,478,602	4,265,016
Total investments	61,600,930	56,244,093
Cash and cash equivalents	4,746,080	5,693,298
Accounts, notes and other receivables, net	885,603	774,812
Accrued interest	628,395	550,567
Prepaid expenses	411,289	325,733
Federal income tax recoverable	88,010	582,803
Deferred income taxes, net	2,754,207	3,807,373
Premises and equipment, net	1,697,542	1,861,130
Title plant	810,376	810,376
Other assets, net	118,495	158,849
Total assets	$73,740,927	$70,809,034
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Policy claims and loss adjustment expenses	$22,249,886	$22,133,000
Accounts payable and accrued expenses	1,911,172	1,438,174
Deferred revenue	240,489	154,670
Notes payable	4,992,568	4,005,970
Total liabilities	29,394,115	27,731,814
STOCKHOLDERS' EQUITY		
Common stock	966,350	970,700
Additional paid-in capital	2,000,000	2,000,000
Retained earnings	41,631,137	41,485,099
Accumulated other comprehensive loss	(250,675)	(1,378,579)
Total stockholders' equity	44,346,812	43,077,220
Total liabilities and stockholders' equity	$73,740,927	$70,809,034

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

CONSOLIDATED STATEMENTS OF INCOME & STOCKHOLDERS' EQUITY

CATIC Financial, Inc. and Subsidiaries

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008	2009	2008
REVENUES		
Title insurance premiums	$74,032,465	$55,124,667
Title and other service fees	2,969,325	2,366,357
Net investment income	2,331,011	2,767,849
Net realized gains on investments	106,743	157,712
Other revenue	779,201	559,800
Total revenue	80,218,745	60,976,385
EXPENSES		
Title insurance commissions	52,847,584	38,271,660
Compensation and benefits	13,257,822	11,942,624
Provision for policy claims and loss adjustment expenses	5,743,140	6,917,644
Other general and administrative expenses	6,017,547	5,335,731
Premium taxes	1,112,529	854,272
Depreciation and amortization	361,176	644,860
Interest	245,788	223,043
Total expenses	79,585,586	64,189,834
Income (loss) before income taxes	633,159	(3,213,449)
Income tax expense (benefit)	487,121	(1,159,453)
Net income (loss)	146,038	(2,053,996)
Other comprehensive income (loss):		
Gains (losses) on available-for-sale securities	1,644,714	(2,982,221)
Less: net realized gains on available-for-sale securities	92,696	157,712
Unrealized gains (losses) on investments	1,552,018	(3,139,933)
Change in defined benefit plan liability	156,931	(197,214)
Deferred income tax expense (benefit)	581,045	(1,134,630)
Net other comprehensive income (loss)	1,127,904	(2,202,517)
Comprehensive income (loss)	1,273,942	(4,256,513)
Net repurchases of common stock	(4,350)	(4,950)
Increase (decrease) in stockholders' equity	1,269,592	(4,261,463)
STOCKHOLDERS' EQUITY, beginning of year	43,077,220	47,338,683
STOCKHOLDERS' EQUITY, end of year	$44,346,812	$43,077,220

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, 2009 AND 2008	2009	2008
Cash Flows from Operating Activities		
Premiums received	$74,211,374	$55,462,563
Other operating receipts	3,298,862	2,290,081
Interest and dividends received	2,044,306	3,237,665
Commissions paid	(52,827,584)	(38,271,660)
Salaries and benefits paid	(13,075,262)	(11,522,340)
Policy claims and loss adjustment expenses paid	(5,626,254)	(5,502,805)
Interest expense paid	(141,262)	(190,120)
Other expenses paid	(6,310,494)	(7,318,871)
Income tax refunds received	479,793	136,065
Net cash provided by (used in) operating activities	2,053,479	(1,679,422)
Cash Flows from Investing Activities		
Proceeds from sale and maturity of investment securities	31,282,524	27,096,613
Purchase of premises and equipment	(159,763)	(102,095)
Purchase of investment securities	(35,105,706)	(24,952,245)
Net cash (used in) provided by investing activities	(3,982,945)	2,042,273
Cash Flows from Financing Activities		
Proceeds from notes payable	2,600,000	–
Net repurchases of common stock	(4,350)	(4,950)
Payments on notes payable	(1,613,402)	(106,621)
Net cash provided by (used in) financing activities	982,248	(111,571)
Net (decrease) increase in cash and cash equivalents	(947,218)	251,280
Cash and Cash Equivalents, beginning of year	5,693,298	5,442,018
Cash and Cash Equivalents, end of year	$ 4,746,080	$ 5,693,298

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

Note 1 – Nature of Business

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 title insurance 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 (CAP), a wholly-owned subsidiary of CATIC formed to hold and dispose of properties acquired in connection with claim settlements, and CATIC Exchange Facilitator, Inc. (CEFI), 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.

During 2007, a former wholly-owned subsidiary of Financial, Vested Technologies, Inc. (Vested), sold the majority of its operating assets to an independent third-party provider of the same type of services. During 2009, Vested was dissolved and its remaining assets, consisting of cash totaling $53,152, were distributed to Financial.

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 deposits substantial funds in financial institutions, maintaining its cash and short-term cash investments in bank deposit or brokerage accounts that, at times, may exceed federally insured limits. These funds include amounts owned by third parties, such as escrow deposits. 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 Federal Deposit Insurance Corporation coverage or otherwise. In the event of such failure, the Company also could be held liable for the funds owned by third parties even though such amounts are not considered assets of the Company. 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 accounts or short-term cash investments.

Cash equivalents at December 31, 2009 and 2008 consist of money market accounts, temporary clearing accounts, and short-term U.S. Treasury obligations having original maturities of three months or less.

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 $327,244 and $239,000, as of December 31, 2009 and 2008, 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 classified as available-for-sale and are carried at fair value. Unrealized gains and losses on the available-for-sale portfolios, net of income taxes, are included in accumulated other comprehensive loss, a component of stockholders' equity.

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 currently.

The Company follows the policy of providing for depreciation and amortization of premises and equipment 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

Depreciation and amortization are computed on the straight-line method.

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 leases. Amortization expense for the years ended December 31, 2009 and 2008, was $37,825 and $43,207, respectively. The remaining costs of $51,177 will be amortized in 2010 and 2011 in the amount of $42,280 and $8,897, respectively.

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, 2009 and 2008 was $222,758 and $273,677, respectively.

Income and Premium Taxes – Income tax expense includes federal and state income taxes currently payable and deferred federal 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.

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 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 their primary regulators, the December 31, 2009 statutory surplus of CATIC and NJTIC totaled $37,406,582 and $4,339,472, respectively. The net gain from operations of each company, while positive, does not exceed the statutory surplus test threshold.

On March 2, 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 from CATIC received the prior approval of the Connecticut Insurance Department. There were no other dividends paid by CATIC or NJTIC during 2009 and 2008.

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, as of the measurement date. Authoritative accounting guidance establishes a hierarchy of valuation techniques 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). The following summarizes the fair value hierarchy:

Level 1 – Quoted prices in active markets that are unadjusted and accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 – Quoted prices for identical assets and liabilities in markets that are not active, quoted prices for similar assets and liabilities in active markets or financial instruments for which significant observable inputs are available, either directly or indirectly such as interest rates and yield curves that are observable at commonly quoted intervals; and

Level 3 – Price or valuation techniques that require inputs that are unobservable.

The Company measures and discloses the fair value of its financial and non-financial assets and liabilities that are required to be measured at fair value according to the fair value hierarchy. As of December 31, 2009 and 2008, the Company's financial assets required to be measured and disclosed at fair value consist of debt securities classified as available-for-sale, equity securities and financial assets underlying the defined benefit plan. As of December 31, 2009 and 2008, the Company had no non-financial assets required to be measured and disclosed at fair value on a recurring basis.

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

Subsequent Events – Subsequent events were evaluated through April 14, 2010, which is the date the consolidated financial statements were available to be issued.

Note 3 – Investments

Details on carrying value and alternate value of the Company's debt and equity securities at December 31, 2009 and 2008, 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 and cost, respectively.

	2009		2008	
	Carrying Value	Alternate Value	Carrying Value	Alternate Value
Held-to-maturity debt securities:				
Tax-exempt securities	$10,381,893	$10,694,326	$ 5,158,213	$ 5,287,382
Government bonds	12,147,025	12,541,611	12,867,442	13,525,638
Corporate bonds	6,445,583	6,762,209	9,405,900	9,347,230
	28,974,501	29,998,146	27,431,555	28,160,250
Available-for-sale debt securities:				
Tax-exempt securities	1,955,403	1,933,755	6,763,714	6,655,912
Government bonds	7,934,409	7,919,903	5,680,154	5,467,795
Corporate bonds	17,258,015	16,971,417	12,103,654	12,548,102
	27,147,827	26,825,075	24,547,522	24,671,809
Equity securities	5,478,602	6,140,881	4,265,016	6,032,274
	$61,600,930	$62,964,102	$56,244,093	$58,864,333

Details on unrealized gains and losses of the Company's debt and equity securities at December 31, 2009 and 2008, follow.

	2009		2008	
	Unrealized Gains	Unrealized Losses	Unrealized Gains	Unrealized Losses
Held-to-maturity debt securities:				
Tax-exempt securities	$ 348,069	$ (35,636)	$ 149,773	$ (20,604)
Government bonds	488,149	(93,563)	658,196	–
Corporate bonds	316,626	–	126,153	(184,823)
	$1,152,844	$ (129,199)	$ 934,122	$ (205,427)
Available-for-sale debt securities:				
Tax-exempt securities	$ 27,852	$ (6,204)	$ 185,490	$ (77,688)
Government bonds	97,800	(83,294)	212,359	–
Corporate bonds	381,170	(94,572)	185,019	(629,467)
	506,822	(184,070)	582,868	(707,155)
Equity securities	16,189	(678,468)	182,121	(1,949,379)
	$ 523,011	$ (862,538)	$ 764,989	$(2,656,534)
Gross unrealized gains (losses) on available-for-sale securities	$ (339,527)		$(1,891,545)	
Deferred income tax provision (benefit)	$ (115,439)		(643,127)	
Net unrealized gains (losses) included in other comprehensive income (loss)	$ (224,088)		$(1,248,418)	

The following table sets forth, as of December 31, 2009, 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	
	Aggregate Unrealized Loss	Fair Value	Aggregate Unrealized Loss	Fair Value
Held-to-maturity debt securities:				
Tax-exempt securities	$ (14,092)	$1,144,135	$ (21,544)	$ 514,210
Government bonds	(93,563)	1,519,982	–	–
	(107,655)	2,664,117	(21,544)	514,210
Available-for-sale debt securities:				
Tax-exempt securities	(6,204)	842,268	–	–
Government bonds	(83,294)	4,544,944	–	–
Corporate bonds	(61,623)	4,436,928	(32,949)	859,128
	(151,121)	9,824,140	(32,949)	859,128
Equity securities	(2,134)	1,705,032	(676,334)	3,500,520
	$ (260,910)	$14,193,289	$ (730,827)	$4,873,858

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, 2009, 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 year ended December 31, 2009, the Company recognized no other-than-temporary impairments of investments.

The following table sets forth the fair value and amortized cost of debt securities at December 31, 2009 by contractual or expected maturity. Expected maturities will differ from contractual 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	$ 2,500,415	$ 2,536,165	$ 548,871	$ 551,846
One to five years	10,893,038	11,457,519	14,478,395	14,714,430
Five to ten years	12,758,111	13,069,126	10,873,033	10,905,848
After ten years	2,822,937	2,935,336	924,776	975,703
	$28,974,501	$29,998,146	$26,825,075	$27,147,827

During 2009, the Company sold, prior to its maturity date, a debt security classified as held-to-maturity due to evidence of a significant deterioration of the issuer's credit worthiness. The security had a carrying value of $305,822 at the date of sale and was sold for proceeds of $319,929. Accordingly, the Company recognized a realized gain on the sale of this investment totaling $14,047.

As of December 31, 2009 and 2008, debt securities classified as held-to-maturity with an amortized cost of $654,795 and $558,936, respectively, were pledged as collateral to conduct business in four states.

The following table presents, as of December 31, 2009 and 2008, the carrying values of the Company's available-for-sale investments measured at fair value on a recurring basis:

	2009		2008	
	Level 1	Level 2	Level 1	Level 2
Debt securities:				
Tax-exempt securities	$ –	$ 1,955,403	–	$ 6,763,714
Government Bonds	–	7,934,409	–	5,680,154
Corporate bonds	–	17,258,015	–	12,103,654
	–	27,147,827	–	24,547,522
Equity securities	5,478,602	–	4,265,016	–
	$5,478,602	$27,147,827	$4,265,016	$24,547,522

As of December 31, 2009 and 2008, 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 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, 2009 and 2008 were as follows:

	2009		2008	
	Realized Investment Gains	Realized Investment Losses	Realized Investment Gains	Realized Investment Losses
Debt securities	$577,609	$(488,944)	$446,288	$(369,234)
Equity securities	360,547	(342,469)	170,402	(89,744)
	$938,156	$(831,413)	$616,690	$(458,978)
Net realized investment gains	$106,743		$157,712	

Interest and dividend income presented in the accompanying statements of operations and changes in stockholders' equity for the years ended December 31, 2009 and 2008 consist of the following:

	2009	2008
Debt securities	$2,246,708	$2,557,271
Equity securities	69,900	101,037
Cash and cash equivalents	14,403	109,541
	$2,331,011	$2,767,849

NOTE 4 – PREMISES AND EQUIPMENT

Premises and equipment at December 31, 2009 and 2008, are summarized by major classification as follows:

	2009	2008
Land and land improvements	$ 403,162	$ 392,032
Building and improvements	3,925,508	3,925,508
Furniture and equipment	4,349,520	4,297,404
	8,678,190	8,614,944
Less: accumulated depreciation and amortization	6,980,648	6,753,814
	$1,697,542	$1,861,130

Depreciation and amortization expense of premises and equipment was $323,351 and $354,420 for 2009 and 2008, respectively.

NOTE 5 – TITLE PLANT

The title plant is carried at original cost. The costs of maintaining (updating) the title plant are charged to expense as incurred. Because a properly maintained title plant has an indefinite life and does not diminish in value with the passage of time, no provision has been made for depreciation or amortization. The Company continually analyzes its title plant for impairment and has determined that fair value exceeds the carrying value. This 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 2009 or 2008.

NOTE 6 – POLICY CLAIMS AND LOSS ADJUSTMENT EXPENSES

Activity in policy claims and loss adjustment expenses for the years ended December 31, 2009 and 2008 is summarized as follows:

	2009	2008
Incurred (recovered) related to:		
Current year	$5,935,784	$ 4,905,497
Prior years	(192,644)	2,012,147
	5,743,140	6,917,644
Paid related to:		
Current year	573,784	27,098
Prior years	5,052,470	5,475,707
	5,626,254	5,502,805
Increase in liability	116,886	1,414,839
Liability—beginning of year	22,133,000	20,718,161
Liability—end of year	$22,249,886	$22,133,000

The provision for policy claims and loss adjustment expenses decreased by $192,644 and increased by $2,012,147 in 2009 and 2008, respectively, 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. The largest amount retained on any policy by the Company is currently $12.9 million. These risk factors, coupled with the variability that is inherent in any unpaid claim estimate, could result in a material deviation from the net unpaid claims.

NOTE 7 – REINSURANCE

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

CATIC cedes and assumes title policy risks to and from other insurance companies in order to limit and diversify its risk. CATIC retains, without reinsurance, the first $5 million of liability risk on any policy. If there is an excess of $5 million of liability up to $21.7 million, CATIC retains an additional 30%. Thus, the maximum retention of liability on any one risk for CATIC is $10 million. If the liability exceeds $21.7 million, CATIC cedes 100% of the risk in excess of that amount.

NJTIC currently assumes no reinsurance risks and cedes title policy risks to CATIC and to a third-party title insurance company in order to limit its risk. NJTIC retains, without reinsurance, the first $3 million of liability risk on any policy. If there is an excess of $3 million of liability, up to $36 million, CATIC assumes 30% of the $33 million excess over $3 million and the third-party title insurance company assumes the remaining 70% of the $33 million excess over $3 million. In addition, NJTIC has an extended facility with the third-party title insurance company to take 100% of the risk of $14 million in excess of $36 million, thus giving NJTIC the capacity to write business on exposures of up to $50 million. However, the maximum retention of liability on any one risk for NJTIC is $3.0 million and for NJTIC and CATIC combined is $12.9 million.

Due to statutory regulatory restraints, CATIC and NJTIC are restricted to purchasing reinsurance from other title insurance companies. Consequently, CATIC purchases significantly all its title reinsurance from one third-party title insurance company, and NJTIC purchases significantly all its title reinsurance either from CATIC or from the same third-party title insurance company. CATIC and NJTIC are both using the same reinsuring title insurance company, which has a Fitch Ratings rating of A+ and an AM Best rating of A, ratings indicative of the highest quality to meet its obligations. CATIC and NJTIC remain liable to the extent that the reinsuring company cannot meet its obligations under reinsurance agreements.

Neither CATIC nor NJTIC has paid or recovered any reinsurance losses during the years ended December 31, 2009 and 2008. The total amount of premiums for assumed and ceded risks was less than 1% of title insurance premiums.

NOTE 8 – NOTES PAYABLE

The following notes are included in notes payable at December 31, 2009 and 2008:

	2009	2008
Note payable, monthly payments of interest only at a fixed rate of 4.58%, principal due February 2019	$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	2,392,568	2,505,970
Surplus note payable in semi-annual interest only installments at 5%, with a balloon principal payment on December 31, 2008	–	1,500,000
	$4,992,568	$4,005,970

On February 18, 2009, CATIC borrowed $2.6 million from the Federal Home Loan Bank of Boston, for ten years at a fixed rate of 4.58% interest-only monthly payments. The purpose of this loan was to 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.

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 contains an annual financial covenant with which Financial was in compliance at December 31, 2009.

Expected maturities of the notes payable are as follows:

Year ending December 31,	
2010	$ 122,218
2011	129,344
2012	136,865
2013	2,004,141
2014	–
2015 and thereafter	2,600,000
	$4,992,568

CATIC has a $1,500,000 line of credit with a national commercial bank with interest at LIBOR plus 100 basis points or at the bank's prime rate, whichever rate the Company chooses at drawdown. The drawdown period under this agreement expired February 1, 2010, but was extended for an additional year since there was no event of default. The line is uncollateralized and was issued under the general credit of the Company. 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, 2009 and 2008.

Note 9 – 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, 2009 and 2008, totaled $326,878 and $352,021, 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. The Company'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, 2009 and 2008, the assets of the plan are generally invested in two group pension contracts with a domestic life insurance company and various mutual fund investments.

The following table sets forth the changes in the plan benefit obligation and fair value of plan assets for the years ended December 31, 2009 and 2008.

	2009	2008
Change in benefit obligation:		
Benefit obligation, beginning of year	$1,410,266	$1,427,252
Interest cost	94,699	101,128
Actuarial (gain) loss	(70,589)	24,002
Benefits paid	(142,187)	(142,116)
Benefit obligation, end of year	$1,292,189	$1,410,266
Change in fair value of plan assets:		
Fair value of plan assets, beginning of year	$1,280,271	$1,454,824
Actual gain (loss) on plan assets	177,547	(38,416)
Employer contributions	44,124	5,979
Benefits paid	(142,187)	(142,116)
Fair value of plan assets, end of year	$1,359,755	$1,280,271
Funded status	$ 67,566	$(129,995)

The following table sets forth the components of the net periodic pension cost (benefit) recognized as a component of income from operations in the accompanying consolidated statements of operations and stockholders' equity for the years ended December 31, 2009 and 2008:

	2009	2008
Interest cost	$ 94,699	$ 101,128
Amortization of net loss	3,772	
Amortization of transition asset	(4,127)	(4,127)
Expected return on plan assets	(90,850)	(103,341)
Net periodic pension cost (benefit)	$ 3,494	$ (6,340)

The following table sets forth the amounts recognized in accumulated other comprehensive loss and amounts not yet recognized as a component of net periodic benefit cost at December 31, 2009 and 2008:

	2009	2008
Cumulative net loss	$(92,533)	$(253,591)
Net transition asset	52,250	56,377
Amount recognized in accumulated other comprehensive loss	(40,283)	(197,214)
Cumulative employer contributions in excess of net periodic benefit cost	107,849	67,219
Net asset (liability) recognized in the consolidated balance sheets	$ 67,566	$(129,995)

The following table sets forth the amounts recognized in accumulated other comprehensive loss for the years ended December 31, 2009 and 2008:

	2009	2008
Net gain (loss)	$157,286	$(165,759)
Amortization of transition asset	(4,127)	(4,127)
Amortization of net loss	3,772	–
	156,931	(169,886)
Amounts recognized in accumulated other comprehensive loss, beginning of year	(197,214)	(27,328)
Amounts recognized in accumulated other comprehensive loss, end of year	(40,283)	(197,214)
Deferred income tax asset	13,696	67,053
Amounts recognized in accumulated other comprehensive loss, net of taxes	$(26,587)	$(130,161)

The estimated amount of net loss and transition asset that will be amortized from accumulated other comprehensive loss into net periodic benefit cost in 2010 is $7,652 and $4,127, respectively.

The following table sets forth plan assets carried at fair value as of December 31, 2009 and 2008 and their designation within the fair value hierarchy based upon the method used to determine fair value and changes in the fair value of plan assets measured using Level 3 inputs for the years then ended.

	2009		2008	
	Level 1	Level 2	Level 1	Level 2
Equity securities	$627,888	–	$453,793	–
Debt securities	–	$127,484	–	–
	$627,888	$127,484	$453,793	–

	2009	2008
Level 3:		
Guaranteed investment contracts		
Balance, beginning of year	$528,781	$582,782
Purchases	25,774	24,806
Sales	(64,722)	(81,056)
Changes in unrealized gain (loss)	(3,829)	2,249
Balance, end of year	$486,004	$528,781

As of December 31, 2009 and 2008, the plan's equity securities and mutual funds 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 investments in guaranteed investment contracts are valued using unobservable inputs.

The plan held cash and cash equivalents totaling $118,379 and $297,697 as of December 31, 2009 and 2008, respectively.

For the years ended December 31, 2009 and 2008, the Company used a discount rate of 7.5% in calculating the projected benefit obligation and the expected long-term rate of return on assets. No benefit obligation is necessary for non-vested employees. All participants are vested.

The following benefit payments are expected to be paid by the Company's benefit plan:

Year ending December 31,	
2010	$144,626
2011	148,424
2012	145,617
2013	142,199
2014	140,464
2015 – 2019	616,717

The Company expects to contribute the minimum amount required to the plan in 2010. Measurement dates of December 31, 2009 and 2008 were used to determine the amounts above.

Note 10 – Income Taxes

The provision for (benefit from) income taxes for the years ended December 31, 2009 and 2008, is summarized below:

	2009	2008
Current income taxes:		
Federal	$ 15,000	$ (465,144)
State	–	(39)
	15,000	(465,183)
Deferred federal income tax expense (benefit)	472,121	(694,270)
Income tax provision (benefit)	487,121	(1,159,453)
Deferred income tax expense (benefit)–other comprehensive income (loss)	581,045	(1,134,630)
Total income tax expense (benefit–comprehensive income (loss)	$1,068,166	$(2,294,083)

The Company's deferred income tax assets and liabilities arising from temporary differences between accounting income and taxable income consisted of the following at December 31, 2009 and 2008:

	2009	2008
Policy claims and claim adjustment expenses	$1,793,118	$1,786,167
Net operating loss carryforwards	1,391,159	1,772,416
Investments	62,164	111,975
Investments – other comprehensive loss	115,439	643,127
Pension – other comprehensive loss	13,696	67,053
Other	274,650	335,553
Valuation allowance	(667,595)	(678,263)
Gross deferred income tax asset	2,982,631	4,038,028
Depreciation on premises and equipment	42,105	74,300
Other	186,319	156,355
Gross deferred income tax liabilities	228,424	230,655
Net deferred income tax assets	$2,754,207	$3,807,373

As of December 31, 2009, the Company had net operating loss carryforwards for federal income tax purposes of $4,091,643. A portion of the federal amount, $3,307,388, is subject to an annual limitation of $235,040 as a result of a change in NJTIC's ownership upon its purchase by the Company on December 21, 2006, as defined by federal Internal Revenue Code section 382 and the related income tax regulations. As a result of the limitation, $2,424,615 is available to offset future federal taxable income, which expires through 2028. Management established a valuation allowance against the portion of the net operating loss carryforwards that management believes will not be realized.

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. The periods from December 31, 2003 to December 31, 2009 remain open to examination by the Internal Revenue Service and state authorities.

The income tax provisions differ from the amounts that would be obtained by applying statutory income tax rates to income before income taxes due to tax-exempt interest, tax-advantaged dividend income earned and prior year true-ups. The Company recognizes interest accrued related to unrecognized tax benefits and penalties, if incurred, as a component of income tax expense.

The Company's management has determined that the Company has no uncertain tax positions at December 31, 2009.

Note 11 – Common Stock

Common stock consists of 50,000 shares authorized ($50 par value) and 4,327 and 4,414 shares issued and outstanding at December 31, 2009 and 2008, 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.

Note 12 – Cash Flows

The following table provides a reconciliation of net income (loss) to net cash provided by (used in) operating activities for the years ended December 31, 2009 and 2008.

	2009	2008
Net income (loss)	$ 146,038	$(2,053,996)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	361,176	644,860
Amortization of bond premium	125,106	143,215
Deferred income taxes	472,121	(694,270)
Net realized gains on investments	(106,743)	(157,712)
Bad debt expense (recovery)	45,244	(51,000)
(Increase) decrease in operating assets:		
Accounts, notes and other receivables	(156,035)	294,154
Accrued interest	(77,828)	35,059
Prepaid expenses	(153,122)	(69,430)
Federal income tax recoverable	494,793	(322,215)
Other assets	2,529	1,292
Increase (decrease) in operating liabilities:		
Policy claims and claim adjustment expenses	116,886	1,414,839
Accounts payable and accrued expenses	697,495	(556,817)
Deferred revenue	85,819	(307,401)
Net cash provided by (used in) operating activities	$2,053,479	$(1,679,422)

Note 13 – 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 $3,920,104 and $780,531 at December 31, 2009 and $4,410,728 and $530,910 at December 31, 2008, 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, 2009 and 2008, was $3,309,471 and $3,296,229, 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 $347,648 and $1,109,000 at December 31, 2009 and 2008, respectively. These properties are not considered assets of the Company and are, therefore, excluded from the accompanying consolidated balance sheets.

Note 14 – 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 the operating leases totaled $488,646 and $519,593 in 2009 and 2008, respectively, and is recorded in general and administrative expenses in the consolidated statements of operations and stockholders' equity.

At December 31, 2009, three third-party tenants are obligated to the Company for real estate leases through 2012. Total rental income under these leases was $183,975 and $199,604 for 2009 and 2008, respectively, and is netted against general and administrative expenses in the consolidated statements of operations and stockholders' equity.

Future minimum lease payments and rental income are as follows:

Year ending December 31,	Lease Expense	Rental Income	Net
2010	$ 559,333	$198,876	$ 360,457
2011	455,799	96,918	358,881
2012	295,327	24,517	270,810
2013	156,445	–	156,445
2014	87,925	–	87,925
	$1,554,829	$320,311	$1,234,518

Note 15 – 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.

Note 16 – 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.