



CATIC FINANCIAL, INC.
Annual Report 2006

To Our Shareholders:

2006 was a year of celebration, growth and challenge for CATIC Financial, Inc. and its subsidiaries.

Our celebrations came from a variety of sources. 2006 was our 40th anniversary of operations. This event was marked by a gala concert by the Boston Pops Esplanade Orchestra. Several thousand of our shareholders and friends joined us for this event at the Hartford Civic Center. Also, CATIC was honored by the readers of the Connecticut Law Tribune by being selected as the “Best Title Insurer in Connecticut” for the second consecutive year. In addition, CATIC was honored by the Connecticut Bar Foundation with the presentation of its “Legal Services Leadership Award.” One of our subsidiaries, Eastern Attorneys Services, Inc., celebrated its 6th consecutive year as leader of the Vermont title insurance market.

CATIC Financial grew both organically and through acquisition in 2006. For the first time in its history, your Company’s assets exceeded \$70 million, reaching \$72.91 million. Shareholders' equity also reached a new high of \$46.86 million. While our pre-tax income exceeded one million dollars for the year, a major contributor to our growth was our acquisition of New Jersey Title Insurance Company (NJTIC) in December. We believe that the addition of NJTIC to our family of companies will help us strategically and financially by providing us access to major markets in the Mid-Atlantic region.

Challenges came in several forms in 2006. The long-predicted slowdown in the housing market finally arrived in earnest, affecting CATIC, Eastern Attorneys Services, Inc. and CATIC Exchange Solutions, Inc.. In addition, legislative issues ranging from ancient roads in Vermont to authorizing non-attorney closers in Massachusetts and Connecticut were confronted. However, the biggest challenge was the claims losses experienced by CATIC due to agent error and fraud. For the first time in our history, claims payments exceeded \$5 million in a single year. This has prompted CATIC management and staff to re-examine policies and procedures in an effort to avoid losses of this magnitude in the future.

All in all our 40th anniversary was quite a year. We are already hard at work on the next 40!

Francis J. Collins
Chairman

Richard J. Patterson
President and CEO



FAMILY OF COMPANIES



CATIC

From a number of standpoints, 2006 was a memorable year for CATIC. First, it was the 40th anniversary of the Company's operations. The milestone was commemorated with a series of events culminating with a concert by the Boston Pops Esplanade Orchestra at the Hartford Civic Center. One of the many memorable moments during the high energy and entertaining performance was when conductor Keith Lockhart confessed that the only song that he had been able to find that was suggestive of title insurance was "Lean on Me." The audience roared its approval and the orchestra was off visiting familiar favorites such as "Stars and Stripes Forever" and inviting everyone to a 1960's sing-along. The evening concluded with guests literally dancing in the aisles.

On a more serious note, the Connecticut Bar Foundation presented CATIC with its "2006 Legal Services Leadership Award." This award was made for the Company's "Outstanding Support of Legal Services for Connecticut's Low-Income Community." Also in the awards area, CATIC was voted as "Best Title Insurer" by readers of the Connecticut Law Tribune. This marks the second consecutive year that the Company has won this award.

The Company's revenues were off 3.5% from 2005. This is consistent with the cyclical nature of the title insurance and broader housing industries. In most areas, the Company met or exceeded its plans. Unfortunately, one area where the Company's performance was significantly worse than planned was claims.

Although it is typical for claims payments to increase during the down slope of the housing cycle, 2006 exceeded the norm. This was due largely to a record year for fraud claims. During the year, CATIC made payments of more than \$3.3 million to settle fraud claims in Connecticut, Massachusetts and Vermont. Unfortunately, the largest category of fraud loss was agent defalcation. Although the Company has been aggressive in its recovery efforts and anticipates recovering additional amounts in 2007 and beyond, the magnitude of the losses caused the Company to post a net operating loss and only a meager net income. Management is optimistic that fraud losses will decline in 2007. While they will likely be higher than in "normal" years, they will be lower than the record established in 2006.

On a brighter note, CATIC continued its public awareness program across New England with billboards and radio spots advocating the value that an attorney brings to the real estate conveyancing and financing process. The Company made a \$25,000 gift to the Real Estate Bar Association of Massachusetts to support its work on behalf of attorneys in the Commonwealth. Attorneys across the region participated in CATIC's new Attorney Business Index (ABI). The ABI is an important business management tool for participating attorneys. It provides information that will help attorneys guide their practices in a rapidly changing business environment. Just another example of CATIC's commitment to the success of its agents.

CATIC EXCHANGE SOLUTIONS, INC.

After three years of uninterrupted growth, CATIC Exchange Solutions, Inc. experienced a pull back in the 1031 exchange market in 2006. File originations in all states were down over their 2005 levels. Rising interest rates, a softening of the real estate market in New England's vacation areas and increased competition all contributed to a decline in file originations. Despite that decline, however, net income remained robust and was off only a small percentage from the previous record year. In order to combat these trends, the Company is seeking to enhance its cross-marketing efforts with CATIC. Management is also looking to expand the Company's service offerings beyond 1031 exchanges in an effort to diversify its income stream and provide new and additional services to CATIC agents.

While 2006 was in several ways a down year, it did have its successes. The Company's website has been completely revamped and contains several interactive tools to assist agents with their 1031 transactions. The Company paid its first dividend to CATIC Financial, Inc. in October. In December 2006, the Board of Directors approved a strategic plan for calendar years 2007 through 2009, laying a solid road map for the Company's future growth and success.

VESTED TECHNOLOGIES, INC.

In 2006 Vested enjoyed a year of continued growth in all areas of service to the legal community. Vested expanded its relationships with several local bar associations through participation in seminars and other events. In addition, the Company sponsored, alone or in conjunction with others, seminars on Time Management and other topics. At the professional level, Vested expanded its legal software product offerings to include several law-related Lexis/Nexis® software packages, including TimeMatters® and HotDocs®, and achieved Certified Consultant status for these products.

Vested continues to provide application development for the next version of the RA-Connect® transaction management system. The Company was selected for several non-law related projects including the development of a custom accounting system as well as the overhaul of a major enterprise network. Vested continues to offer web design and web and domain hosting services to the legal community at extremely attractive pricing, in order to encourage that segment of the market to position itself to fully participate in e-commerce.

In 2007, the Company will undertake a major examination of its operations, products, services and overall strategy. There will be no change in our focus on the legal community as our primary market. Rather, the chief purpose of this re-assessment is to identify how we can further improve our service to that key market.

NEW JERSEY TITLE INSURANCE COMPANY

Although New Jersey Title Insurance Company (NJTIC) is the newest member of the CATIC Financial family of companies, it is far from a “new” company. The Parsippany, New Jersey based underwriter can trace its roots back to 1888. It was originally formed not as a title insurance underwriter, but as an abstracting company. As an abstractor, it would search titles and report its findings to attorneys in the form of an abstract. This abstract would provide the basis for transferring title.

As title insurance became more widely used, NJTIC shifted from being an abstractor to an insurer. For many years, it operated through a number of branch offices across New Jersey. It issued its policies through these branches. Six years ago, the Company changed its method of operation. It sold or closed its branch offices and shifted to an agent model of operations exclusively. While New Jersey Supreme Court ethics rules prohibit attorneys from acting as title agents in transactions in which they are representing a party to the transaction, attorneys do actively represent parties to real estate transactions in parts of New Jersey. NJTIC agents work closely with these attorneys to successfully close their clients’ transactions.

2006 was a noteworthy year for this respected company. In addition to its acquisition by CATIC Financial, NJTIC continued to expand its agent base dramatically. During the year, it increased its agent population by 37%. It also initiated operations in Pennsylvania and saw its surplus available to shareholders reach a record high of \$5.3 million. The NJTIC staff is looking forward to the opportunities that lie ahead.

With the acquisition of smaller, independent title insurers by national underwriters, NJTIC is one of the few underwriters in New Jersey and Pennsylvania that does not compete against agents. This realization is resonating with agents just as it has for CATIC with agents in New England. Joining the CATIC Financial family of companies will help NJTIC in supporting its agents and demonstrating the value that title agents and attorneys provide to the public.

EASTERN ATTORNEYS SERVICES, INC.

The Vermont real estate market remained stable in 2006. EASI benefited from this stability to enjoy one of its best years. Its success is manifested in a number of ways. Through EASI's efforts, the Company remained the market share leader in Vermont with more than 41% of the premium dollars. The Company continues to add agents throughout the state. EASI's staff played a central role in resolving the long-standing dispute over “ancient roads” that had caused uncertainty and concern in all corners of the state.

While the real estate market remained stable, it did experience change. Direct operations by EASI's competitors have begun to influence and impact the market. Although this is consistent with what has been seen in other markets for years, it is new for Vermont. The Vermont Bar Association is exploring initiatives concerning the unauthorized practice of law and attorney specialization under the American Bar Association Model Rules.

We anticipate that the real estate market in 2007 will remain very strong in traditional ski area towns where construction and growth continue to occur. Real estate activity in other areas of the state will likely flatten or decline this year. EASI will continue its efforts to support and encourage the real estate bar across Vermont.

BlumShapiro

To the Board of Directors
CATIC Financial, Inc.

We have audited the accompanying consolidated balance sheets of CATIC Financial, Inc. and Subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of income and stockholders' equity and cash flows for the years 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 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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, 2006 and 2005, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Blum, Shapiro & Company, P.C.

April 16, 2007

CONSOLIDATED BALANCE SHEETS
CATIC FINANCIAL, INC. AND SUBSIDIARIES
AS OF DECEMBER 31, 2006 AND 2005

	2006	2005
ASSETS		
Cash and Cash Equivalents	\$8,147,950	\$6,412,929
ACCOUNTS, NOTES AND OTHER RECEIVABLES, Net	1,124,575	924,918
INVESTMENTS		
Debt securities held-to-maturity, at amortized cost	27,221,918	32,770,410
Debt securities available-for-sale, at fair value	23,270,945	15,931,170
Equity securities, at fair value	6,281,119	5,295,737
Total investments	<u>56,773,982</u>	<u>53,997,317</u>
PREMISES AND EQUIPMENT, Net	2,497,918	3,006,272
OTHER ASSETS		
Net deferred income tax asset	1,563,868	820,178
Accrued interest	644,977	495,990
Prepaid expenses	231,217	231,046
Property held for sale	360,000	371,000
Intangible asset	487,665	-
Title plant	810,376	306,463
Other assets	271,505	211,320
Total other assets	<u>4,369,608</u>	<u>2,435,997</u>
Total Assets	<u>\$72,914,033</u>	<u>\$66,777,433</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Notes payable	\$4,511,185	\$3,181,799
Accounts payable and accrued expenses	1,866,646	2,224,440
Policy claims and claim adjustment expenses	19,001,055	14,646,001
Deferred revenue	674,751	620,700
Total liabilities	<u>26,053,637</u>	<u>20,672,940</u>
STOCKHOLDERS' EQUITY		
Common stock	990,900	998,100
Additional paid-in capital	2,000,000	2,000,000
Retained earnings	43,241,118	42,391,464
Accumulated other comprehensive income	628,378	714,929
Total stockholders' equity	<u>46,860,396</u>	<u>46,104,493</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$72,914,033</u>	<u>\$66,777,433</u>

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, 2006 AND 2005

2006

2005

REVENUE

Title insurance premiums	\$58,595,752	\$60,747,048
Title and other service fees	3,912,565	4,017,587
Net investment income	2,652,302	2,243,240
Net realized gain on investments	881,707	420,517
Other revenue	<u>1,376,841</u>	<u>1,610,203</u>
Total revenue	<u>67,419,167</u>	<u>69,038,595</u>

EXPENSES

Title insurance commissions	37,303,619	37,817,404
Compensation and benefits	12,118,409	11,826,266
Provision for policy claims and claim adjustment expenses	6,466,768	3,584,056
Other general and administrative expenses	8,487,347	8,278,970
Premium taxes	1,129,984	1,101,540
Depreciation and amortization	705,040	705,293
Interest	<u>181,312</u>	<u>180,360</u>
Total expenses	<u>66,392,479</u>	<u>63,493,889</u>

INCOME BEFORE INCOME TAXES

	1,026,688	5,544,706
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INCOME TAXES

	<u>177,034</u>	<u>2,153,821</u>
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NET INCOME

	849,654	3,390,885
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OTHER COMPREHENSIVE INCOME

Gains (losses) on available-for-sale securities	750,569	(48,554)
Net realized gains (losses) on available-for-sale securities	<u>(881,707)</u>	<u>974,621</u>
Unrealized gains (losses) on investments	(131,138)	926,067
Income taxes expense (benefit)	<u>(44,587)</u>	<u>314,863</u>
Net other comprehensive income (loss)	<u>(86,551)</u>	<u>611,204</u>

COMPREHENSIVE INCOME

	763,103	4,002,089
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NET REPURCHASES OF COMMON STOCK

	<u>(7,200)</u>	<u>(4,050)</u>
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INCREASE IN STOCKHOLDERS' EQUITY

	755,903	3,998,039
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STOCKHOLDERS' EQUITY - BEGINNING OF YEAR

	46,104,493	42,106,454
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STOCKHOLDERS' EQUITY - END OF THE YEAR

	<u>\$46,860,396</u>	<u>\$46,104,493</u>
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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, 2006 AND 2005

2006

2005

CASH FLOWS FROM OPERATING ACTIVITIES

Net Income	\$849,654	\$3,390,885
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	705,040	705,293
Amortization of bond discount	(117,726)	(32,674)
Deferred income tax benefit	(45,835)	(218,956)
Net realized gains on investments	(881,707)	(420,517)
Bad debt expense	17,165	37,282
(Increase) decrease in operating assets:		
Accounts, notes and other receivables	137,121	(213,887)
Accrued interest	(17,555)	(195,731)
Prepaid expenses	66,826	11,864
Property held for sale	11,000	(371,000)
Other assets	(36,631)	(78,328)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(575,537)	(11,149)
Policy claims and claims adjustment expenses	958,387	1,825,443
Deferred revenue	54,051	(20,910)
Net cash provided by operating activities	<u>1,124,253</u>	<u>4,407,615</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sale and maturity of investment securities	12,576,563	18,189,302
Purchases of premises and equipment	(150,374)	(345,191)
Acquisition of business, net	(4,409,912)	-
Purchase of investment securities	(7,227,695)	(30,501,126)
Proceeds from sale of investment in affiliate	-	<u>5,395,138</u>
Net cash provided by (used in) investing activities	<u>788,582</u>	<u>(7,261,877)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Net repurchases of common stock	(7,200)	(4,050)
Payments on notes payable	<u>(170,614)</u>	<u>(153,732)</u>
Net cash used in financing activities	<u>(177,814)</u>	<u>(157,782)</u>

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

1,735,021 (3,012,044)

CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR

6,412,929 9,424,973

CASH AND CASH EQUIVALENTS - END OF YEAR

\$8,147,950 \$6,412,929

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CATIC FINANCIAL, INC.

Note 1 - Summary of Significant Accounting Policies:

Nature of Business - The Company's principal business is providing title insurance on residential and commercial properties in Connecticut, Massachusetts, Rhode Island, Vermont, New Hampshire, New Jersey, and Pennsylvania. In the normal course of business, the Company provides credit to customers under standard terms without collateral.

Principles of Consolidation - At December 31, 2005, CATIC Financial, Inc. (Financial) had four wholly owned subsidiaries. Connecticut Attorneys Title Insurance Company (CATIC) provides title insurance and title insurance services, Eastern Attorneys Services, Inc. (EASI) provides title insurance services, Vested Technologies, Inc. (Vested) provides technology services primarily to law firms, and CATIC Exchange Solutions, Inc. (CESI) facilitates tax-deferred property exchanges.

On December 21, 2006, Financial purchased all of the outstanding common stock of New Jersey Title Insurance Company, Inc. (NJTIC) from NJT Holdings, Inc. NJTIC provides title insurance and title insurance services in New Jersey and Pennsylvania. See Note 6 for further information.

During 2006, CATIC Acquired Properties, LLC (CAP), a wholly owned subsidiary of CATIC, was formed to hold and dispose of properties acquired in connection with claim settlements. CATIC Exchange Facilitator, Inc. (CEFI), a wholly owned subsidiary of CESI, was also formed during 2006 to facilitate tax-deferred property exchanges.

The consolidated financial statements include the accounts of Financial and its wholly owned subsidiaries, CATIC, EASI, Vested, CESI, and NJTIC and their wholly owned subsidiaries, CAP and CEFI (collectively the Company). All significant intercompany accounts and transactions have been eliminated in the consolidation.

Cash and Cash Equivalents - The Company maintains its cash and short-term cash investments in bank deposit or brokerage accounts that, at times, may exceed federally insured limits. In addition, cash investments may, at times, be invested in instruments not covered by federal insurance. The Company has not experienced any losses in such accounts or instruments. The Company believes it is not exposed to any significant credit risk on cash and short-term cash investments.

Cash investments include money market accounts, temporary clearing accounts, and short-term U.S. Treasury obligations having original maturities of three months or less.

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. Common and preferred stocks are classified as available-for-sale and are carried at fair value. Unrealized gains and losses for the available-for-sale portfolios are included as a separate component of stockholders' equity.

Premises and Equipment - Premises and equipment are carried at cost less accumulated depreciation. Major renewals and betterments 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.

Property Held for Sale - The Company takes possession of certain real properties periodically as a result of claims. Such properties are subrogated as a means to mitigate the provision for policy claims and claims adjustment expenses.

Other Assets - The Company includes inventory, deposits, and deferred lease costs in other assets. Inventory is valued at the lower of first-in, first-out (FIFO) cost or market.

Policy Claims and Claim 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 claims reflects management's best estimate of the total costs required to settle all claims reported to the Company and claims incurred but not reported. The process applied to estimate claims costs is subject to many variables, including changes in the real estate market and interest rate environment. It is reasonably possible that a change in the estimate will occur in future years.

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 as assets or liabilities of the Company. The amounts are disclosed in Note 13, and are not included in the consolidated balance sheets.

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

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 of uncollectible amounts for the years ended December 31, 2006 and 2005 was \$305,131 and \$302,000, respectively.

Title insurance premiums are recognized as policies and premiums from agents 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.

Leases - Rentals that convey merely the right to use property are charged to income 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, 2006 and 2005, was \$1,877,369 and \$1,456,899, respectively.

Profit-Sharing Plan - The Company has a 401(k) 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 contributions at the sole discretion of the Board of Directors. Contributions to the 401(k) plan for the years ended December 31, 2006 and 2005, totaled \$411,325 and \$323,982, 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CATIC FINANCIAL, INC.

income tax purposes. These differences relate primarily to different depreciation and loss reserve methods used for financial reporting and income tax purposes. There are no deferred state income taxes.

CATIC and NJTIC compute state tax based upon premiums paid. There are no temporary differences related to premium taxes and, therefore, there are no state deferred taxes related to CATIC or NJTIC in 2006 and 2005. The other subsidiaries continue to be taxed on their respective state income.

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 policy claims and claims adjustment expenses. Actual results could differ from those estimates.

Reclassifications - Certain prior year balances have been reclassified in order to conform to the current year presentation.

Note 2 - Investments:

Details on carrying value and alternate value of the company's debt and equity securities and related gross and net unrealized gains and losses at December 31, 2006 and 2005 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.

	2006		2005	
	Carrying Value	Alternate Value	Carrying Value	Alternate Value
Held-to-maturity debt securities	\$27,221,918	\$26,805,496	\$33,471,410	\$32,393,743
Available-for-sale debt securities	23,270,945	23,274,280	15,931,170	16,017,866
Equity securities	\$ 6,281,119	5,325,699	4,594,657	4,125,811
	<u>Gains</u>	<u>Losses</u>	<u>Gains</u>	<u>Losses</u>
Available-for-sale debt securities	\$ 93,753	\$ (97,089)	\$55,643	\$(142,339)
Equity securities	974,652	(19,228)	1,220,154	(50,232)
Gross unrealized gains (losses) on available-for-sale securities	1,068,405	(116,317)	1,275,797	(192,571)
Net unrealized gains on available-for-sale securities	952,088		1,083,226	
Applicable deferred income taxes	323,710		368,297	
Net unrealized gains included in accumulated other comprehensive income	\$ <u>628,378</u>		\$ <u>714,929</u>	

At December 31, 2006, the maturities of investments in debt securities to be held to maturity are as follows:

	Maturity			
	Within 1 Year	1-5 Years	5-10 Years	After 10 Years
Tax-exempt securities	\$ 249,841	\$ 2,210,506	\$ 761,384	\$ -
Government bonds	349,935	8,568,056	5,425,543	511,783
Corporate bonds	1,566,519	4,756,922	2,334,797	487,132
	<u>\$2,166,295</u>	<u>\$15,535,484</u>	<u>\$8,521,724</u>	<u>\$998,915</u>

At December 31, 2006, the maturities of investments in debt securities available for sale are as follows:

	Maturity			
	Within 1 Year	1-5 Years	5-10 Years	After 10 Years
Tax-exempt securities	\$ -	\$ 781,811	\$10,035,062	\$ 535,385
Government bonds	696,592	149,263	-	2,497,111
Corporate bonds	-	1,479,579	1,578,198	5,062,584
Preferred stock	455,360	-	-	-
	<u>\$1,151,952</u>	<u>\$2,410,653</u>	<u>\$11,613,260</u>	<u>\$8,095,080</u>

For the year ended December 31, 2006, gross proceeds from the sale and maturities of securities totaled \$12,576,563, resulting in gross realized gains of \$969,647 and gross realized losses of \$87,940.

For the year ended December 31, 2005, gross proceeds from the sale and maturities of securities totaled \$28,083,833, resulting in gross realized gains of \$1,523,426 and gross realized losses of \$1,102,909.

In February 2005, CATIC sold its 25.67% ownership interest in an affiliate, United General Financial Services, Inc., for \$5,395,138 cash and recognized a \$1,395,138 pre-tax realized investment gain, which is included in the consolidated statement of income and stockholders' equity in the line item net realized gains on investments.

At December 31, 2006 and 2005 government and municipal bonds with an amortized cost of \$532,103 and \$332,563, respectively, were pledged as collateral to conduct business in four states.

Note 3 - Premises, Equipment and Leases:

Premises and equipment at December 31, 2006 and 2005 are summarized by major classification as follows:

	2006	2005
Land	\$ 392,032	392,032
Building and improvements	3,945,414	3,942,277
Furniture and equipment	4,500,312	4,415,371
	8,837,758	8,749,680
Less accumulated depreciation	(6,339,840)	(5,743,408)
Premises and equipment, net	<u>\$2,497,918</u>	<u>\$3,006,272</u>

Depreciation of premises and equipment was \$633,854 and \$663,912 for 2006 and 2005, respectively.

The Company is obligated under leases for office space and computer equipment through April 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 \$341,944 and \$364,212 in 2006 and 2005, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CATIC FINANCIAL, INC.

Future minimum lease payments are as follows:

Year Ending December 31

2007	\$ 524,142
2008	352,741
2009	286,681
2010	166,351
2011	136,413
2012-2014	<u>323,915</u>
Total future minimum lease payments	<u>\$1,790,243</u>

At December 31, 2006, two third-party tenants are obligated to the Company for real estate leases through 2011. Total rental income under these leases was \$178,006 and \$224,623 for 2006 and 2005, respectively and is netted against general and administrative expenses in the consolidated statements of income and stockholders' equity. Minimum future rental income is as follows:

Year Ending December 31

2007	\$141,596
2008	145,401
2009	149,207
2010	126,930
2011	<u>38,655</u>
Total minimum future rental income	<u>\$601,789</u>

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, 2006 and 2005 was \$71,186 and \$41,381, respectively. The remaining costs of \$146,272 are being amortized at \$40,244 per year.

Note 4 - Intangible Assets and Title Plant:

The Company has acquired agent contracts representing exclusive relationships with agents with the acquisition of NJTIC. The values of the contracts are based on the discounted cash flow expected to be generated from these contracts. The carrying amount of the intangible assets is reviewed on an annual basis for impairment. The intangible assets are amortized using the straight-line method over the life of the exclusive contracts, which expire December 31, 2008. The estimated amortization expense is \$243,832 per year through the year ended December 31, 2008.

The title plant has an indefinite life and is subject to annual tests for impairment.

Note 5 - Notes Payable:

The following notes are included in notes payable at December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Mortgage note payable in monthly installments of \$21,222 including interest at 5.68% through April 2013	\$2,713,719	\$2,816,544
Surplus notes payable in semi-annual interest-only installments at 5%, with a balloon principal payment due on December 31, 2008	1,500,000	-
Term-loan note payable in monthly installments of \$7,395, including interest at LIBOR plus 1.5%, through November 2008	<u>297,466</u>	<u>365,255</u>
Total Notes Payable	<u>\$4,511,185</u>	<u>\$3,181,799</u>

12.

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 a financial covenant with which Financial was in compliance at December 31, 2006.

Surplus notes payable by NJTIC to NJT Holding, Inc., are due in full on December 31, 2008 at 5% fixed interest payable semi-annually on January 1 and July 1. Interest cannot be paid by NJTIC without the express written permission of the New Jersey Department of Banking and Insurance. Because of its special redemption features, NJTIC is allowed to account for the notes as part of its admitted statutory surplus. Through the purchase agreement with NJT Holdings, the actual payment of the surplus notes does not have to be made until 120 days after the due date, but payment on the notes is guaranteed by Financial. As of December 31, 2006, accrued interest totaled \$37,500.

Monthly installments on the term-loan note are redetermined every October. The Company has entered into an interest rate swap agreement to reduce the effect of changes in interest rates on this variable rate debt. The notional amount of the swap agreement at December 31, 2006 is the amount of the note payable and the amortization of the notional amount corresponds to the amortization schedule of the note. The swap agreement provides for the Company to receive payments based on an interest rate of LIBOR plus 1.5% (the rate on the note) and to make payments to the counterparty based on an interest rate of 5.25%. The Company is exposed to possible credit losses in the event of nonperformance by this party. The market value of the interest rate swap agreement was \$5,676 and \$7,042 at December 31, 2006 and 2005, respectively.

Interest expense incurred and paid, including the effect of the interest rate swap agreement, was \$181,312 and \$180,360 for 2006 and 2005, respectively.

Expected maturities of the notes payable are as follows:

Year Ending December 31

2007	180,997
2008	1,828,703
2009	115,485
2010	122,218
2011	129,344
2012 - 2013	<u>2,134,438</u>
Total	<u>\$4,511,185</u>

During 2006, CATIC established a \$1,500,000 line of credit with a national commercial bank with interest charged at LIBOR plus one hundred basis points or at the bank's prime rate. The drawdown period under this agreement expires February 1, 2008, but so long as there is no event of default, the line may be extended for up to two additional annual periods with only a de minimus fee payment. 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 deals of this type. There was no outstanding balance at December 31, 2006.

Note 6 - Acquisition:

Financial acquired 100% of the common stock of NJTIC on December 21, 2006. Total consideration of \$5,417,390 consisted of the purchase price of \$5,200,000 and \$217,390 of direct acquisition costs. The purchase price of \$5,200,000 was paid in cash at closing and the direct acquisition costs were paid prior to closing by Financial.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CATIC FINANCIAL, INC.

The allocation of the purchase price was as follows:

Cash and cash equivalents	\$1,007,478
Accounts receivable	353,943
Investments	7,257,236
Premises and equipment	24,214
Net deferred income tax asset	653,270
Accrued interest	131,432
Intangible assets	487,665
Prepaid expense	66,997
Title plant	503,913
Other assets	45,652
Notes payable	(1,500,000)
Accounts payable and accrued expenses	(217,743)
Claims reserves	<u>(3,396,667)</u>
Total consideration	\$5,417,390
Less cash acquired	<u>(1,007,478)</u>
Net consideration	<u>\$4,409,912</u>

The consolidated statements of income and stockholders' equity do not include revenue and expenses for NJTIC from the purchase date to December 31, 2006 as these amounts are not material to the consolidated financial statements. The assets and liabilities purchased are included in the acquisition of business, net on the accompanying statements of cash flows.

Note 7 - Defined Benefit Plan:

NJTIC maintains a noncontributory defined benefit retirement plan. Effective July 31, 1993, NJTIC froze the current 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 actuary. As of December 31, 2006, the assets of the plan were held in money market and mutual fund investments.

The following table sets forth the funded status benefit obligation of the Company's benefit plan:

Projected benefit obligation	\$(1,477,189)
Fair value of plan assets	<u>1,564,464</u>
Funded status	<u>\$ 87,275</u>
Accrued benefit cost recognized in the balance sheet	<u>\$ 29,729</u>

The Company used a discount rate of 7.50% in calculating the projected benefit obligation.

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

2007	\$154,985
2008	150,682
2009	147,443
2010	141,666
2011	141,752
2012 - 2016	644,142

The Company does not expect to make any contributions to the plan in 2007.

Note 8 - Income Taxes:

The Company's deferred tax assets and liabilities arising from temporary differences between accounting income and taxable income consisted of the following at December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Policy claims and claim adjustment expenses	1,348,154	1,248,201
Net operating loss carryforwards	653,270	-
Other	<u>134,394</u>	<u>213,241</u>
Gross deferred income tax assets	<u>\$2,135,818</u>	<u>\$1,461,442</u>
Depreciation on premises and equipment	169,633	257,895
Investments	343,791	351,930
Other	<u>58,526</u>	<u>31,439</u>
Gross deferred income tax liabilities	<u>571,950</u>	<u>641,264</u>
Net deferred income tax assets	<u>\$1,563,868</u>	<u>\$ 820,178</u>

No valuation allowance was deemed necessary as of December 31, 2006 or 2005. The Company has net operating loss carryforwards pre-tax of \$1,921,382 to be carried forward for twenty years.

The provision for income taxes charged to net income and other comprehensive income for the years ended December 31, 2006 and 2005, is summarized below:

	<u>2006</u>	<u>2005</u>
Charged to net income:		
Federal income taxes currently payable	\$185,221	\$2,264,523
State income taxes currently payable	<u>37,648</u>	<u>108,254</u>
Total currently payable	222,869	2,372,777
Deferred federal income tax benefit	<u>(45,835)</u>	<u>(218,956)</u>
Income tax provision charged to net income	<u>177,034</u>	<u>2,153,821</u>
Charged to other comprehensive income:		
Federal income taxes deferred (benefit)	<u>\$(44,587)</u>	<u>\$314,863</u>

The income tax provisions are less than the amounts that would be obtained by applying statutory income tax rates to income before income taxes due to tax-exempt interest and tax-advantaged dividend income earned.

Income taxes paid were \$513,752 and \$2,181,850 for 2006 and 2005, respectively.

Note 9 - Common Stock:

Common stock consists of 50,000 shares authorized (\$50 par value) and 4,818 and 4,962 shares issued and outstanding at December 31, 2006 and 2005, 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CATIC FINANCIAL, INC.

Note 10 - Related Parties:

Certain agents of CATIC are also stockholders of Financial. Agents received title insurance commissions in the ordinary course of business. During the periods covered by these statements, no agent received commissions of more than 1% of these amounts. There were no amounts loaned to any directors, officers or stockholders during the two years covered by these financial statements.

The Board of Directors has established CATIC Foundation, Inc. (the Foundation). There were no contributions to the Foundation in 2006, and \$50,000 in 2005. The Foundation is managed by a nondirector president and a separate nondirector treasurer, and administered by an independent Board of Directors. However, all of these directors are also Board members of the Company.

Note 11 - Policy Claim and Claim Adjustment Expenses:

Activity in the claim and claim adjustment expenses for the years ended December 31, 2006 and 2005 is summarized as follows:

	2006	2005
Provision for policy claims and claim adjustment expenses:		
Current year policies	3,507,114	3,311,024
Prior year development	<u>2,918,124</u>	<u>229,213</u>
	6,425,238	3,540,237
Payments for policy claims and claim adjustment expenses	<u>(5,466,851)</u>	<u>(1,714,794)</u>
Increase in liability	958,387	1,825,443
Increase in liability due to acquisition	3,396,667	-
Liability - Beginning of Year	<u>14,646,001</u>	<u>12,820,558</u>
Liability - End of Year	<u>\$19,001,055</u>	<u>\$14,646,001</u>

Note 12 - 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 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 one 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 \$4 million, NJTIC retains an additional 50%. Thus, the maximum retention of liability on any one risk is \$3.5 million. If the liability exceeds \$4 million, NJTIC cedes 100% of the risk in excess of that amount.

Due to statutory limitations, the companies are restricted to purchasing reinsurance from other title insurance companies. Consequently, CATIC purchases significantly all its title insurance from one title insurance company and NJTIC purchases significantly all its title insurance from one other title insurance company. CATIC's reinsuring title company has an AM Best rating of A+, and NJTIC's reinsuring title company has an AM Best rating of A-, ratings indicative of superior and excellent ability, respectively, to meet their obligations. The companies remain liable to the extent that reinsuring companies cannot meet their obligations under reinsurance agreements.

Neither company has paid or recovered any reinsurance losses during the years ended December 31, 2006 and 2005. The total amount of premiums for assumed and ceded risks was less than 1% of title premiums.

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.

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 at December 31, 2006 and 2005 was \$21,915,876 and \$16,118,688, respectively. The proceeds are not considered assets 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 no 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 \$12,437,000 and \$9,567,000 at December 31, 2006 and 2005, respectively. These properties are not considered assets of the Company and are, therefore, excluded from the accompanying consolidated balance sheets.

Note 14 - 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 impact on the Company's financial position or operations.

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