

ACMAT CORPORATION AND SUBSIDIARIES
MARCH 31, 2010

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ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets

<u>Assets</u>	March 31, 2010 (Unaudited)	December 31, 2009
Investments:		
Fixed maturities-available for sale at fair value (Cost of \$75,807,932 in 2010 and \$75,453,859 in 2009)	\$76,179,459	75,929,659
Equity securities, at fair value (Cost of \$3,754,310 in 2010 and \$2,258,579 in 2009)	4,266,202	2,173,504
Short-term investments, at cost which approximates fair value	<u>1,000,802</u>	<u>3,436,351</u>
Total investments	81,446,463	81,539,514
Cash and cash equivalents	8,673,675	10,074,955
Accrued interest receivable	722,014	680,580
Receivables, net of allowance for doubtful accounts of \$55,460 in 2010 and 2009	442,052	567,521
Reinsurance recoverable:		
Unpaid losses	3,672,945	3,642,683
Paid losses	--	--
Prepaid expenses	122,311	114,618
Property & equipment, net	4,495,042	3,933,696
Deferred income taxes	1,662,931	1,831,331
Income taxes receivable	10,504	170,388
Deferred policy acquisition costs	593,397	589,454
Other assets	988,248	879,499
Intangibles	<u>1,920,360</u>	<u>1,920,360</u>
	<u>\$104,749,942</u>	<u>105,944,599</u>
 <u>Liabilities & Stockholders' Equity</u>		
Accounts payable	\$ 563,975	609,334
Reserves for losses and loss adjustment expenses	20,845,005	21,597,746
Unearned premiums	1,548,134	1,647,703
Collateral held	30,629,076	31,364,696
Accrued liabilities	1,615,511	1,597,863
Long-term debt	<u>9,642,857</u>	<u>10,000,000</u>
Total liabilities	64,844,558	66,817,342
 Stockholders' Equity:		
Common Stock (No par value; 3,500,000 shares authorized; 468,546 and 468,546 shares issued and outstanding)	468,546	468,546
Class A Stock (No par value; 10,000,000 shares authorized; 898,655 and 898,655 shares issued and outstanding)	898,655	898,655
Retained earnings	38,010,828	37,502,210
Accumulated other comprehensive loss	<u>527,355</u>	<u>257,846</u>
Total stockholders' equity	<u>39,905,384</u>	<u>39,127,257</u>
	<u>\$104,749,942</u>	<u>105,944,599</u>

See Notes to Unaudited Consolidated Financial Statements.

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Earnings (Unaudited)
Three Months Ended March 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Earned premiums	\$886,010	1,432,479
Contract revenues	20,788	590,956
Investment income, net	788,949	795,311
Net realized capital gains	433,517	10,266
Other income	<u>171,762</u>	<u>169,910</u>
	<u>2,301,026</u>	<u>2,998,922</u>
Cost of contract revenues	44,374	814,625
Losses and loss adjustment expenses	177,202	316,496
Amortization of policy acquisition costs	326,430	441,235
General and administrative expenses	945,453	1,029,232
Interest expense	<u>79,288</u>	<u>69,805</u>
	<u>1,572,747</u>	<u>2,671,393</u>
Earnings before income taxes	728,279	327,529
Income taxes	<u>226,202</u>	<u>91,032</u>
Net earnings	<u>\$502,077</u>	<u>236,497</u>
Basic Earnings Per Share	\$.37	.17
Diluted Earnings Per Share	\$.34	.16

See Notes to Unaudited Consolidated Financial Statements.

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity (Unaudited)
March 31, 2010 and 2009

	Common Stock par value	Class A Stock par value	Retained earnings	Accumulated other comprehensive income (loss)	Total stockholders' equity
Balance as of December 31, 2008	\$471,606	1,089,193	45,001,854	(2,100,544)	44,462,109
Comprehensive income:					
Net unrealized losses on debt and equity securities, net of reclassification	--	--	--	(604,781)	(604,781)
Net unrealized gain on derivatives qualifying as hedges	--	--	--	21,517	21,517
Net earnings	--	--	236,497	--	<u>236,497</u>
Total comprehensive income					(346,767)
Stock based compensation	--	--	12,102	--	12,102
Acquisition and retirement of 2,710 shares of Common Stock	(2,710)	--	(58,480)	--	(61,190)
Acquisition and retirement of 190,188 shares of Class A Stock	--	<u>(190,188)</u>	<u>(4,672,912)</u>	--	<u>(4,863,100)</u>
Balance as of March 31, 2009	<u>\$468,896</u>	<u>899,005</u>	<u>40,519,061</u>	<u>(2,683,808)</u>	<u>39,203,154</u>
 Balance as of December 31, 2009	 \$468,546	 898,655	 37,502,210	 257,846	 39,127,257
Comprehensive income:					
Net unrealized gains on debt and equity securities	--	--	--	269,509	269,509
Net earnings	--	--	502,077	--	<u>502,077</u>
Total comprehensive income					771,586
Stock based compensation	--	--	6,541	--	6,541
Balance as of March 31, 2010	<u>\$468,546</u>	<u>898,655</u>	<u>38,010,828</u>	<u>527,355</u>	<u>39,905,384</u>

See Notes to Unaudited Consolidated Financial Statements.

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Unaudited)
Three Months Ended March 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Net earnings	\$502,077	236,497
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	241,609	124,274
Stock option expense	6,541	12,102
Net realized capital gains	(433,517)	(10,266)
Changes in:		
Accrued interest receivable	(41,434)	(244,349)
Reinsurance recoverable	(30,262)	(42,414)
Receivables, net	125,469	56,860
Deferred policy acquisition costs	(3,943)	89,634
Prepaid expenses and other assets	(116,442)	156,783
Accounts payable and accrued liabilities	(27,711)	(1,652,890)
Cash collateral held	(735,620)	(2,036,053)
Reserves for losses and loss adjustment expenses	(752,741)	193,679
Income taxes, net	205,816	77,085
Unearned premiums	<u>(99,569)</u>	<u>(483,112)</u>
Net cash used for operating activities	<u>(1,159,727)</u>	<u>(3,522,170)</u>
Cash flows from investing activities:		
Proceeds from investments sold or matured:		
Fixed maturities—sold	9,639,546	1,144,331
Fixed maturities—matured	700,000	5,394,451
Equity securities	493,343	--
Purchases of:		
Fixed maturities	(10,385,507)	(7,344,010)
Equity securities	(2,148,731)	(796,948)
Short-term investments, (purchases) sales, net	2,435,549	3,460,947
Capital expenditures	<u>(618,610)</u>	<u>(31,013)</u>
Net cash provided by investing activities	<u>115,590</u>	<u>1,827,758</u>
Cash flows from financing activities:		
Repayments on long-term debt	(357,143)	(259,650)
Payments for acquisition & retirement of stock	<u>--</u>	<u>(4,924,290)</u>
Net cash used for financing activities	<u>(357,143)</u>	<u>(5,183,940)</u>
Net change in cash and cash equivalents	(1,401,280)	(6,878,352)
Cash and cash equivalents at beginning of period	<u>10,074,955</u>	<u>12,554,590</u>
Cash and cash equivalents at end of period	<u>\$8,673,675</u>	<u>5,676,238</u>

See Notes to Unaudited Consolidated Financial Statements.

ACMAT CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(1) Financial Statements

The consolidated financial statements include the accounts of ACMAT Corporation ("ACMAT" or the "Company") and its subsidiaries. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and are unaudited.

The interim financial information contained in this report has been prepared from the books and records of the Company and its subsidiaries and reflects, in the opinion of the management of the Company, all adjustments (consisting of normal and recurring accruals) necessary to fairly present results of operations for the periods indicated. All significant intercompany accounts and transactions have been eliminated in consolidation.

These statements should be read in conjunction with the financial statements and notes thereto included in the Company's annual report for the year ended December 31, 2009.

(2) Accounting Standards

The FASB has issued FASB Statement No. 168, *The "FASB Accounting Standards Codification@"* and the *"Hierarchy of Generally Accepted Accounting Principles"*. Statement 168 establishes the FASB Accounting Standards Codification @ (Codification or ASC) as the single source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The Codification supersedes all existing non-SEC accounting and reporting standards. All other non-grandfathered, non-SEC accounting literature not included in the Codification will become non-authoritative.

Following the Codification, the Board will not issue new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standards Updates, which will serve to update the Codification, provide background information about the guidance and provide the basis for conclusions on the changes to the Codification.

GAAP is not intended to be changed as a result of the FASB's Codification project, but it will change the way the guidance is organized and presented. As a result, these changes will have significant impact on how companies reference GAAP in their financial statements and in their accounting policies for financial statements issued for interim and annual periods ending after September 15, 2009. The Company has implemented the Codification in this Form 10Q by providing references to the Codification topics.

The Financial Accounting Standard Board (FASB) has issued a number of accounting pronouncements with various future effective dates.

On June 30, 2009, the Company adopted "Subsequent Events" (ASC 855-10), which provides guidance to establish general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. ASC 855-10 also requires disclosure of the date through which subsequent events were evaluated as well as the rationale for why the date was selected. The adoption of ASC 855-10 did not have an impact on the Company's financial position or results of operations.

In April 2009, the FASB issued an accounting standard that provided guidance on estimating fair value when the volume and level of activity for an asset or liability have significantly decreased and in identifying transactions that are not orderly. This accounting standard emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique(s) used, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. The accounting standard also includes guidance on identifying circumstances that indicate a transaction is not orderly. Revisions resulting from a change in valuation technique or its application are accounted for as a change in accounting estimate. The adoption of this accounting standard did not have a material impact on the Company's results of operations, financial condition or cash flow.

ASC 825-10-65-1 amends "Disclosures about Fair Value of Financial Instruments", to require disclosures in the body or in the accompanying notes to financial statements for interim reporting periods and in financial statements for annual reporting periods for the fair value of all financial instruments for which it is practicable to estimate that value, whether recognized or not recognized in the

balance sheet. This also amends “Interim Financial Reporting”, to require entities to disclose the methods and significant assumptions used to estimate the fair value of financial instruments and describe changes in methods and significant assumptions in both interim and annual financial statements. ASC 825-10-65-1 is effective for interim reporting periods ending after June 15, 2009. The Company adopted this guidance for the quarter ended March 31, 2010 and there has been no material impact as a result of adoption.

The objective of ASC 320-10-65-1, which amends existing other-than-temporary impairment guidance for debt securities, is to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. Specifically, the recognition guidance contained in ASC 320-10-65-1 applies to debt securities classified as available-for-sale and held-to-maturity that are subject to other-than-temporary impairment guidance.

Among other provisions, ASC 320-10-65-1 requires entities to: (1) split other-than-temporary impairment charges between credit losses (i.e., the loss based on the entity’s estimate of the decrease in cash flows, including those that result from expected voluntary prepayments), which are charged to earnings, and the remainder of the impairment charge (non-credit component) to other comprehensive income, net of applicable income taxes; (2) disclose information for interim and annual periods that enables financial statement users to understand the types of available-for-sale and held-to-maturity debt and equity securities held, including information about investments in an unrealized loss position for which an other-than-temporary impairment has or has not been recognized, and (3) disclose for interim and annual periods information that enables users of financial statements to understand the reasons that a portion of an other-than-temporary impairment of a debt security was not recognized in earnings and the methodology and significant inputs used to calculate the portion of the total other-than-temporary impairment that was recognized in earnings.

ASC 320-10-65-1 is effective for interim reporting periods ending after June 15, 2009. For debt securities held at the beginning of the interim period of adoption for which an other-than-temporary impairment was previously recognized, if an entity does not intend to sell and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis, the entity shall recognize the cumulative effect of initially apply this guidance as an adjustment to the opening balance of retained earnings with a corresponding adjustment to accumulated other comprehensive income and the impact of adoption accounted for as a change in accounting principles, with applicable disclosure provided. The Company adopted ASC 320-10-65-1 during the quarter ended June 30, 2009 and this adoption did not have an impact on any of the Other-Than-Temporary charges to date.

In June 2009, the FASB issued updated guidance on the accounting for variable interest entities that eliminates the concept of a qualifying special-purpose entity and the quantitative-based risks and rewards calculation of the previous guidance for determining which company, if any, has a controlling financial interest in a variable interest entity. The guidance requires an analysis of whether a company has: (1) the power to direct the activities of a variable interest entity that most significantly impact the entity’s economic performance and (2) the obligation to absorb the losses that could potentially be significant to the entity or the right to receive benefits from the entity that could potentially be significant to the entity. An entity is required to be re-evaluated as a variable interest entity when the holders of the equity investment at risk, as a group, lose the power from voting rights or similar rights to direct the activities that most significantly impact the entity’s economic performance. Additional disclosures are required about a company’s involvement in variable interest entities and an ongoing assessment of whether a company is the primary beneficiary.

The guidance is effective for all variable interest entities owned on or formed after January 1, 2010. The Company does not expect that the provisions of the guidance will have a material effect on its results of operations, financial position or liquidity.

(3) Subsequent Events

The Company has evaluated subsequent events since the date of these consolidated financial statements through the issuance date of May 27, 2010.

(4) Earnings Per Share

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share ("EPS") computations for the three-month periods ended March 31, 2010 and 2009:

	<u>Earnings</u>	<u>Average Shares Outstanding</u>	<u>Per-Share Amount</u>
<u>2010:</u>			
Basic EPS:			
Earnings available to stockholders	\$502,077	1,367,200	\$.37
Effect of Dilutive Securities:			
Stock options	<u> --</u>	<u> 117,331</u>	
Diluted EPS:			
Earnings available to stockholders	<u>\$502,077</u>	<u>1,484,531</u>	\$.34
<u>2009:</u>			
Basic EPS:			
Earnings available to stockholders	\$236,497	1,392,842	\$.17
Effect of Dilutive Securities:			
Stock options	<u> --</u>	<u> 121,281</u>	
Diluted EPS:			
Earnings available to stockholders	<u>\$236,497</u>	<u>1,514,123</u>	\$.16

(5) Supplemental Cash Flow Information

Income tax paid during the three months ended March 31, 2010 and 2009 was \$20,386 and \$13,947, respectively. Interest paid for the three months ended March 31, 2010 and 2009 was \$79,288 and \$69,805, respectively.

(6) Comprehensive Income

The following table summarizes reclassification adjustments for other comprehensive income (loss) and the related tax effects for the three months ended March 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Unrealized gains (losses) on investments:		
Unrealized holding gain (loss) arising during period, net of income tax	\$555,630	(611,557)
Less reclassification adjustment for gains (losses) included in net earnings, net of income tax (benefit) expense of \$147,396 and \$3,490 in 2010 and 2009, respectively	286,121	(6,776)
Unrealized loss on derivatives qualifying as cash flow hedges	<u> --</u>	<u> 21,517</u>
Other comprehensive income (loss)	<u>\$269,509</u>	<u>(583,264)</u>

(7) Stock-Based Compensation

The Company periodically grants non-qualified stock options giving such individuals the right to purchase restricted shares of the Company's Common Stock and Class A Stock. The majority of the options outstanding to officers generally vest evenly over a five to ten year period and generally have a term of 10 years. The exercise price is equal to the fair value at the date of grant. The Company uses a variation of the Black-Scholes option pricing model to value stock options.

As of March 31, 2010 there were 332,500 stock options outstanding of which 38,335 were not yet vested. The compensation costs related to non-vested share compensation arrangements granted but not yet recognized was approximately \$14,000 as of March 31, 2010. The Company expects to recognize that cost over a weighted average period of less than one year. Compensation expense of \$6,541 and \$12,105 is reflected in net earnings for the first quarter of 2010 and 2009, respectively.

(8) Investments

The Company's portfolio is comprised primarily of fixed maturity securities rated AA or better by Standard and Poor's and includes mostly U.S. Treasuries and tax-free municipal securities.

The Company makes investments in residential collateralized mortgage obligations (CMOs) that typically have high credit quality, offer good liquidity, and are expected to provide a significant advantage in yield compared to U.S. Treasury securities. The Company's investment strategy is to purchase CMO tranches which offer the most favorable return given the risks involved. One significant risk evaluated is prepayment sensitivity. While prepayment risk (either shortening or lengthening of duration) and its effect on total return cannot be fully controlled, particularly when interest rates move dramatically, the investment process generally favors securities that control this risk within expected interest rate ranges. The Company does invest in other types of CMO tranches if a careful assessment indicates a favorable risk/return tradeoff. The Company does not purchase residual interests in CMOs.

An investment in debt or equity security is other-than-temporarily impaired if its fair value falls below its book value and the decline is considered to be other-than-temporary. Factors considered in determining whether a decline is other-than-temporary include the length of time and the extent to which fair value has been below cost, the financial condition and the near-term prospects of the issuer; and the Company's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery.

If management determines that the fair value of its securitized financial asset is less than its carrying amount and there has been a decrease in the present value of the estimated cash flows since the last revised estimate, considering both timing and amount, then an other-than-temporary impairment charge is recognized. A debt security is impaired if it is probable that the Company will not be able to collect all amounts due under the security's contractual terms. Equity investments are impaired when it becomes apparent that the Company will not recover its cost over the expected holding period and consideration is given to the financial condition of the issuer. Further, for securities expected to be sold, an other-than-temporary impairment charge is recognized if the Company does not expect the fair value of a security to recover the cost prior to the expected date of sale.

The Company's process for reviewing invested assets for impairments during any quarter includes the following:

- Identification and evaluation of investments which have possible indications of impairment;
- Analysis of investments with gross unrealized investment losses that have fair value less than 80% of amortized cost during successive quarterly periods over a rolling one-year period;
- Management review of for other-than-temporary impairments based on the investee's current financial condition, liquidity, near term recovery prospects and other factors, as well as consideration of other investments that were not recommended for other-than-temporary impairments;
- Consideration of evidential matter, including an evaluation of factors or triggers that would or could cause individual investments to qualify as having other-than-temporary impairment and those that would not support other-than-temporary impairments; and
- Determination of the status of each analyzed investment as other-than-temporary or not, with documentation of the rationale for the decision.

The amortized cost and estimated fair value of investments in fixed maturities classified as available for sale and equity securities at March 31, 2010 and December 31, 2009 were as follows:

	Amortized Cost	March 31, 2010		Fair Value
		Gross Gains	Gross Losses	
Fixed Maturities:				
States, municipalities and political subdivisions	\$22,474,013	380,290	(265,082)	22,589,221
U.S. Government and government agencies	3,881,848	62,733	--	3,944,581
Mortgage-backed securities	31,971,316	515,787	(409,265)	32,077,838
Industrial and miscellaneous	15,111,205	305,979	(43,677)	15,373,507
Redeemable preferred securities	<u>2,369,550</u>	<u>--</u>	<u>(175,238)</u>	<u>2,194,312</u>
	<u>\$75,807,932</u>	<u>1,264,789</u>	<u>(893,262)</u>	<u>76,179,459</u>
Equity Securities	<u>\$ 3,754,310</u>	<u>791,969</u>	<u>(280,077)</u>	<u>4,266,202</u>
	Amortized Cost	December 31, 2009		Fair Value
		Gross Gains	Gross Losses	
Fixed Maturities:				
States, municipalities and political subdivisions	\$20,088,164	247,533	(179,231)	20,156,466
U.S. Government and government agencies	3,882,864	83,816	---	3,966,680
Mortgage-backed securities	33,013,588	284,042	(460,434)	32,837,196
Industrial and miscellaneous	15,864,193	630,107	(6,653)	16,487,647
Redeemable preferred securities	<u>2,605,050</u>	<u>172,228</u>	<u>(295,608)</u>	<u>2,481,670</u>
	<u>\$75,453,859</u>	<u>1,417,726</u>	<u>(941,926)</u>	<u>75,929,659</u>
Equity Securities	<u>\$ 2,258,579</u>	<u>526,201</u>	<u>(611,276)</u>	<u>2,173,504</u>

Management has determined that the above unrealized losses were temporary.

(9) Fair Value Measurements

The Company's estimates of fair value for financial assets and financial liabilities are based on the framework established in FAS 157. The framework is based on the inputs used in valuation, gives the highest priority to quoted prices in active markets and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the FAS 157 hierarchy is based on whether the significant inputs into the valuation are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect the Company's significant market assumptions. The three levels of the hierarchy are as follows:

- Level 1 – Unadjusted quoted market prices for identical assets or liabilities in active markets that the Company has the ability to access.
- Level 2 – Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; or valuations based on models where the significant inputs are observable (e.g., interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.
- Level 3 – Valuations based on models where significant inputs are not observable. The unobservable inputs reflect the Company's own assumptions about the assumptions that market participants would use.

Valuation of Investments Reported at Fair Value in Financial Statements

The fair value of a financial instrument is the estimated amount at which the instrument could be exchanged in an orderly transaction between knowledgeable, unrelated willing parties, i.e., not in a forced transaction. The estimated fair value of a financial instrument may differ from the amount that could be realized if the security was sold in an immediate sale, e.g., a forced transaction. Additionally, the valuation of fixed maturity investments is more subjective when markets are less liquid due to the lack of market

based inputs, which may increase the potential that the estimated fair value (i.e., the carrying amount) of an investment is not reflective of the price at which an actual transaction would occur.

For investments that have quoted market prices in active markets, the Company uses the quoted market prices as fair value and includes these prices in the amounts disclosed in Level 1 of the hierarchy. The Company receives the quoted market prices from a third party nationally recognized pricing service (pricing service). When quoted market prices are unavailable, the Company utilizes a pricing service to determine an estimate of fair value, which is mainly for its fixed maturity investments. The fair value estimates provided from this pricing service are included in the amount disclosed in Level 2 of the hierarchy. If quoted market prices and an estimate from a pricing service are unavailable, the Company produces an estimate of fair value based on internally developed valuation techniques, which, depending on the level of observable market inputs, will render the fair value estimate as Level 2 or Level 3. The Company bases all of its estimates of fair value for assets on the bid price as it represents what a third party market participant would be willing to pay in an arm's length transaction. The following section describes the valuation methods used by the Company for each type of financial instrument it holds that is carried at fair value.

Fixed Maturities

The Company utilizes a pricing service to estimate fair value measurements for all of its fixed maturities. The pricing service utilizes market quotations for fixed maturity securities that have quoted prices in active markets. Since fixed maturities other than U.S. Treasury securities generally do not trade on a daily basis, the pricing service prepares estimates of fair value measurements for these securities using its proprietary pricing applications which include available relevant market information, benchmark curves, benchmarking of like securities, sector groupings and matrix pricing.

The fair value estimates of most fixed maturity investments are based on observable market information rather than market quotes. Accordingly, the estimates of fair value for such fixed maturities, other than U.S. Treasury securities, provided by the pricing service are included in the amount disclosed in Level 2 of the hierarchy. The estimated fair value U.S. Treasury securities are included in the amount disclosed in Level 1 as the estimates are based on unadjusted market prices.

Equities

For public common and preferred stocks, the Company receives prices from a nationally recognized pricing service that are based on observable market transactions and includes these estimates in the amount disclosed in Level 1. Infrequently, current market quotes in active markets are unavailable for certain non-redeemable preferred stocks held by the Company. In these instances, the Company receives an estimate of fair value from the pricing service that provides fair value estimates for the Company's fixed maturities. The service utilizes some of the same methodologies to price the non-redeemable preferred stocks as it does for the fixed maturities. The Company includes the estimate in the amount disclosed in Level 2.

Fair Value Hierarchy

The following table presents the level within the fair value hierarchy at which the Company's financial assets and financial liabilities are measured on a recurring basis at March 31, 2010.

(in millions)	Total	Level 1	Level 2	Level 3
Invested assets:				
Fixed maturities	76,179,459	3,944,581	72,234,878	--
Equity securities	4,266,202	3,138,002	1,128,200	--
Short-term investments	<u>1,000,802</u>	<u>1,000,802</u>	--	--
Total	<u>81,446,463</u>	<u>8,083,385</u>	<u>73,360,078</u>	<u>--</u>

The gross unrealized investment losses and related fair value for fixed maturities and equity securities at March 31, 2010 and December 31, 2009 were as follows:

	<u>Less than 12 months</u>		<u>12 months or longer</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Gross Unrealized Loss</u>	<u>Fair Value</u>	<u>Gross Unrealized Loss</u>	<u>Fair Value</u>	<u>Gross Unrealized Loss</u>
<u>March 31, 2010:</u>						
Fixed maturities:						
States, municipalities and political subdivisions	\$11,363,682	257,670	850,550	7,412	12,214,232	265,082
United States government and government agencies	--	--	--	--	--	--
Mortgage-backed securities	5,127,528	77,497	2,541,748	331,768	7,669,276	409,265
Industrial and miscellaneous	2,251,419	43,677	--	--	2,251,419	43,677
Redeemable preferred stock	--	--	<u>1,792,312</u>	<u>175,238</u>	<u>1,792,312</u>	<u>175,238</u>
Total fixed maturities	<u>18,742,629</u>	<u>378,844</u>	<u>5,184,610</u>	<u>514,418</u>	<u>23,927,239</u>	<u>893,262</u>
Equity securities – common stocks:	1,421,900	48,593	12,560	26,884	1,434,460	75,477
Equity securities – perpetual preferred:	--	--	<u>1,128,200</u>	<u>204,600</u>	<u>1,128,200</u>	<u>204,600</u>
Total equity	<u>1,421,900</u>	<u>48,593</u>	<u>1,140,760</u>	<u>231,484</u>	<u>2,562,660</u>	<u>280,077</u>
Total temporarily impaired securities	<u>\$20,164,529</u>	<u>427,437</u>	<u>6,325,370</u>	<u>745,902</u>	<u>26,489,899</u>	<u>1,173,339</u>
<u>December 31, 2009:</u>						
Fixed maturities:						
States, municipalities and political subdivisions	\$10,021,512	176,490	51,300	2,741	10,072,812	179,231
United States government and government agencies	--	--	--	--	--	--
Mortgage-backed securities	10,696,725	82,433	3,793,423	378,001	14,490,148	460,434
Industrial and miscellaneous	1,369,439	6,653	--	--	1,369,439	6,653
Redeemable preferred:	--	--	--	<u>295,608</u>	<u>1,671,942</u>	<u>295,608</u>
Total fixed maturities	<u>22,087,676</u>	<u>265,576</u>	<u>5,516,665</u>	<u>676,350</u>	<u>27,604,341</u>	<u>941,926</u>
Equity securities – common stocks:	--	--	14,428	25,016	14,428	25,016
Equity securities – perpetual preferred:	--	--	<u>1,246,540</u>	<u>586,260</u>	<u>1,246,540</u>	<u>586,260</u>
Total equity	--	--	<u>1,260,968</u>	<u>611,276</u>	<u>1,260,968</u>	<u>611,276</u>
Total temporarily impaired securities	<u>\$22,087,676</u>	<u>265,576</u>	<u>6,777,633</u>	<u>1,287,626</u>	<u>28,865,309</u>	<u>1,553,202</u>

Management has determined that the above unrealized losses were temporary

(10) Segment Reporting

The Company has two reportable operating segments: ACMAT Contracting and ACSTAR Bonding. The Company's reportable segments are primarily the main legal entities of the Company which offer different products and services. The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

The Bonding operating segment provides surety bonds written for prime, specialty trade, environmental, asbestos and lead abatement contractors and miscellaneous obligations. ACSTAR also offers commercial and other miscellaneous surety such as workers' compensation bonds, supply bonds, subdivision bonds and license and permit bonds as well as some general liability insurance.

ACMAT Contracting provides construction contracting services to commercial and governmental customers. ACMAT Contracting also provides underwriting services to its insurance subsidiaries. In addition, ACMAT Contracting owns a commercial office building in New Britain Connecticut and leases office space to its subsidiaries as well as to third parties.

The Company evaluates performance based on earnings before income taxes and excluding interest expense. The Company accounts for intersegment revenue and expenses as if the products/services were to third parties. Information relating to the three segments for the three-month periods ended March 31, 2010 and 2009 is summarized as follows:

	<u>2010</u>	<u>2009</u>
Revenues:		
ACSTAR Bonding	\$ 2,009,940	2,181,719
ACMAT Contracting	<u>474,161</u>	<u>994,123</u>
	\$ <u>2,484,101</u>	<u>3,175,842</u>
Operating Earnings (Loss):		
ACSTAR Bonding	\$ 1,162,157	1,086,766
ACMAT Contracting	<u>354,590</u>	<u>(689,432)</u>
	\$ <u>807,567</u>	<u>397,334</u>
Depreciation and Amortization:		
ACSTAR Bonding	\$ 44,612	2,825
ACMAT Contracting	<u>196,997</u>	<u>121,449</u>
	\$ <u>241,609</u>	<u>124,274</u>
Identifiable Assets:		<u>December 31, 2009</u>
ACSTAR Bonding	\$ 89,758,978	90,236,704
ACMAT Contracting	<u>14,990,964</u>	<u>15,707,895</u>
	<u>\$104,749,942</u>	<u>105,944,599</u>

The components of revenue for each segment for the three-month periods ended March 31, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
ACSTAR Bonding:		
Premiums	\$ 886,010	1,432,479
Investment income, net	688,107	712,652
Capital gains (losses)	433,517	10,310
Other income (expense)	<u>2,306</u>	<u>26,278</u>
	<u>\$2,009,940</u>	<u>2,181,719</u>
ACMAT Contracting:		
Contract revenues	\$20,788	590,956
Investment income, net	22,296	7,659
Capital gains (losses)	--	(44)
Intersegment revenue:		
Rental income	79,149	79,149
Underwriting services and agency commissions	182,472	172,771
Other	<u>169,456</u>	<u>143,632</u>
	<u>\$474,161</u>	<u>994,123</u>

The following is a reconciliation of segment totals for revenue and operating income to corresponding amounts in the Company's statement of earnings:

	<u>2010</u>	<u>2009</u>
Revenue:		
Total revenue for reportable segments	\$2,484,101	3,175,842
Intersegment eliminations	<u>(183,075)</u>	<u>(176,920)</u>
	<u>\$2,301,026</u>	<u>2,998,922</u>

The adjustments and eliminations required to arrive at consolidated amounts shown above consist principally of the elimination of the intersegment revenues related to the performance of certain services and rental charges. Identifiable assets are those assets that are used by each segment's operations.

	<u>2010</u>	<u>2009</u>
Operating Earnings:		
Total operating earnings for reportable segments	\$807,567	397,334
Interest expense	<u>(79,288)</u>	<u>(69,805)</u>
	<u>\$728,279</u>	<u>327,529</u>

Operating earnings for ACMAT contracting are operating revenues less cost of contract revenues and identifiable selling, general and administrative expenses. Operating earnings for the bonding and liability insurance segments are revenues less losses and loss adjustment expenses, amortization of policy acquisition costs and identifiable general and administrative expenses.