

ACMAT CORPORATION AND SUBSIDIARIES
JUNE 30, 2008

TABLE OF CONTENTS

Consolidated Balance Sheets
Consolidated Statements of Earnings
Consolidated Statements of Stockholders' Equity
Consolidated Statements of Cash Flows
Notes to Consolidated Financial Statements

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets

<u>Assets</u>	June 30, <u>2008</u> (Unaudited)	December 31, <u>2007</u>
Investments:		
Fixed maturities-available for sale at fair value (Cost of \$58,855,055 in 2008 and \$65,672,276 in 2007)	\$57,117,364	64,211,281
Equity securities, at fair value (Cost of \$3,963,359 in 2008 and \$3,463,359 in 2007)	3,104,278	2,928,649
Short-term investments, at cost which approximates fair value	<u>14,255,645</u>	<u>28,088,375</u>
Total investments	74,477,287	95,228,305
Cash and cash equivalents	16,347,333	6,239,190
Accrued interest receivable	219,964	235,923
Receivables, net of allowance for doubtful accounts of \$101,231 in 2008 and 2007	2,108,146	2,193,739
Reinsurance recoverable:		
Unpaid losses	3,268,472	3,298,783
Paid losses	6,237	--
Prepaid expenses	176,734	191,511
Property & equipment, net	10,303,153	10,409,649
Income taxes receivable	683,376	340,865
Deferred policy acquisition costs	914,446	1,011,123
Other assets	612,446	703,790
Intangibles	<u>1,920,360</u>	<u>1,920,360</u>
	<u>\$111,037,954</u>	<u>121,773,238</u>
 <u>Liabilities & Stockholders' Equity</u>		
Accounts payable	\$2,804,506	2,456,855
Reserves for losses and loss adjustment expenses	23,207,468	22,845,815
Unearned premiums	3,081,663	3,574,057
Collateral held	28,746,191	30,718,628
Deferred income taxes	112,861	111,225
Accrued liabilities	1,458,456	4,438,842
Long-term debt	<u>7,313,844</u>	<u>8,662,232</u>
Total liabilities	66,724,989	72,807,654
 Stockholders' Equity:		
Common Stock (No par value; 3,500,000 shares authorized; 472,412 and 478,692 shares issued and outstanding)	472,412	478,692
Class A Stock (No par value; 10,000,000 shares authorized; 1,128,511 and 1,315,960 shares issued and outstanding)	1,128,511	1,315,960
Retained earnings	45,350,512	49,188,831
Accumulated other comprehensive (loss)	<u>(2,638,470)</u>	<u>(2,017,899)</u>
Total stockholders' equity	<u>44,312,965</u>	<u>48,965,584</u>
	<u>\$111,037,954</u>	<u>\$121,773,238</u>

See Notes to Unaudited Consolidated Financial Statements.

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Earnings (Unaudited)

	Three months ended June 30		Six months ended June 30	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Contract revenues	\$1,557,123	1,274,893	2,062,835	2,369,760
Earned premiums	1,946,987	2,452,315	4,084,099	5,374,840
Investment income, net	1,020,244	1,384,188	2,135,745	2,718,727
Net realized capital gains (losses)	(426)	(2,668)	(122,412)	(16,720)
Other income	<u>181,243</u>	<u>272,966</u>	<u>380,324</u>	<u>454,575</u>
	<u>4,705,171</u>	<u>5,381,694</u>	<u>8,540,591</u>	<u>10,901,182</u>
Cost of contract revenues	1,549,453	1,255,948	2,209,026	2,339,640
Losses and loss adjustment expenses	330,988	490,463	865,266	1,074,968
Amortization of policy acquisition costs	626,513	583,321	1,111,191	1,331,701
General and administrative expenses	1,218,381	1,214,324	2,385,000	2,486,947
Interest expense	<u>110,505</u>	<u>187,940</u>	<u>251,337</u>	<u>384,211</u>
	<u>3,835,840</u>	<u>3,731,996</u>	<u>6,821,820</u>	<u>7,617,467</u>
Earnings before income taxes	869,331	1,649,698	1,718,771	3,283,715
Income taxes	<u>313,252</u>	<u>548,493</u>	<u>617,624</u>	<u>1,109,674</u>
Net earnings	<u>\$556,079</u>	<u>1,101,205</u>	<u>1,101,147</u>	<u>2,174,041</u>
Basic earnings per share	\$.34	.58	.64	1.15
Diluted earnings per share	\$.31	.54	.60	1.07

See Notes to Unaudited Consolidated Financial Statements.

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity (Unaudited)
June 30, 2008 and 2007

	Common Stock Par Value	Class A Stock Par Value	Retained Earnings	Accumulated Other Comprehensive Income(Loss)	Total Stockholders' Equity
Balance as of December 31, 2006	\$481,585	1,422,273	47,913,873	169,103	49,986,834
Comprehensive income:					
Net unrealized losses on debt and equity securities, net of reclassification	--	--	--	(996,592)	(996,592)
Net unrealized losses on derivatives qualifying as cash flow hedges	--	--	--	2,097	2,097
Net earnings	--	--	2,174,041	--	<u>2,174,041</u>
Total comprehensive income					1,179,539
Stock based compensation	--	--	70,488	--	70,488
Acquisition and retirement of 2,275 shares of Common Stock	(2,275)	--	(52,493)	--	(54,768)
Acquisition and retirement of 85,917 shares of Class A Stock	--	(85,917)	(2,157,640)	--	(2,243,557)
Issuance of 17,000 shares of Class A Stock pursuant to stock options	<u>--</u>	<u>17,000</u>	<u>141,040</u>	<u>--</u>	<u>158,040</u>
Balance as of June 30, 2007	<u>\$479,310</u>	<u>1,353,356</u>	<u>48,089,309</u>	<u>(825,392)</u>	<u>49,096,583</u>
Balance as of December 31, 2007	\$478,692	1,315,960	49,188,831	(2,017,899)	48,965,584
Comprehensive income:					
Net unrealized gains on debt and equity securities, net of reclassification	--	--	--	(601,060)	(601,060)
Net unrealized gains on derivatives qualifying as cash flow hedges	--	--	--	(19,511)	(19,511)
Net earnings	--	--	1,101,147	--	<u>1,101,147</u>
Total comprehensive income					480,576
Stock based compensation	--	--	43,892	--	43,892
Acquisition and retirement of 6,280 shares of Common Stock	(6,280)	--	(162,650)	--	(168,930)
Acquisition and retirement of 187,449 shares of Class A Stock	<u>--</u>	<u>(187,449)</u>	<u>(4,820,708)</u>	<u>--</u>	<u>(5,008,157)</u>
Balance as of June 30, 2008	<u>472,412.</u>	<u>1,128,511</u>	<u>45,350,512</u>	<u>(2,638,470)</u>	<u>44,312,965.</u>

See Notes to Unaudited Consolidated Financial Statements.

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Unaudited)
Six Months Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Net earnings	\$1,101,147	2,174,041
Adjustments to reconcile net earnings to net cash used for operating activities:		
Stock based compensation	43,892	70,488
Depreciation and amortization	164,158	121,868
Net realized capital losses	122,412	16,720
Changes in:		
Accrued interest receivable	15,959	(2,439)
Reinsurance recoverable	24,074	(331,740)
Receivables, net	85,593	(423,826)
Deferred policy acquisition costs	96,677	201,430
Prepaid expenses and other assets	106,121	1,068,550
Accounts payable and other accrued liabilities	(2,652,246)	368,099
Reserves for losses and loss adjustment expenses	361,653	115,467
Collateral held	(1,972,437)	(5,058,145)
Income taxes, net	(340,877)	(186,200)
Unearned premiums	<u>(492,394)</u>	<u>(982,707)</u>
Net cash provided by (used for) operating activities	<u>(3,336,268)</u>	<u>(2,848,394)</u>
Cash flows from investing activities:		
Proceeds from investments sold or matured:		
Fixed maturities-sold	10,358,936	5,085,286
Fixed maturities-matured	--	710,000
Equity securities	--	1,334,832
Purchases of:		
Fixed maturities	(3,853,813)	(6,971,574)
Equity securities	(250,000)	(2,250,000)
Short-term investments, net	13,832,730	16,524,350
Capital expenditures	<u>(117,967)</u>	<u>(8,273)</u>
Net cash provided by investing activities	<u>19,969,886</u>	<u>14,424,621</u>
Cash flows from financing activities:		
Repayments on long-term debt	(1,348,388)	(1,313,926)
Payments for acquisition & retirement of stock	(5,177,087)	(2,298,325)
Issuance of Class A Stock	--	158,040
Net cash used for financing activities	<u>(6,525,475)</u>	<u>(3,454,211)</u>
Net change in cash	10,108,143	8,122,016
Cash at beginning of period	<u>6,239,190</u>	<u>7,584,783</u>
Cash at end of period	<u>\$16,347,333</u>	<u>15,706,799</u>

See Notes to Unaudited Consolidated Financial Statements.

ACMAT CORPORATION AND SUBSIDIARIES

NOTES TO 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, 2007.

(2) Adoption of New Accounting Standards

Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts

In September 2005, the Accounting Standards Executive Committee (AcSEC) issued Statement of Position 05-1, Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts (SOP 05-1). SOP 05-1 provides guidance on accounting by insurance enterprises for deferred acquisition costs on internal replacements of insurance and investment contracts other than those specifically described in FAS 97, "Accounting and Reporting by Insurance Enterprises for Certain Long Duration Contracts and for Realized Gains and Losses from the Sale of Investments". SOP 05-1 defines an internal replacement as a modification of product benefits, features, rights, or coverages that occurs by the exchange of a contract for a new contract, or by amendment, endorsement, or order to a contract, or by the election of a feature or coverage within a contract. The adoption of SOP 05-1 effective January 1, 2007 did not have a material effect on operations, financial condition or liquidity.

Accounting for Uncertainty in Income Taxes

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements and prescribes the recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

Under FIN 48, evaluation of a tax position is a two-step process. The first step is to determine whether it is more-likely-than-not that a tax position will be sustained upon examination, including the resolution of any related appeals or litigation based on the technical merits of the position. The second step is to measure a tax position that meets the more-likely-than-not threshold to determine the amount of benefit to be recognized in the financial statements. A tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement.

Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent period in which the threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not criteria should be de-recognized in the first subsequent financial reporting period in which the threshold is no longer met.

The Company recognizes accrued interest and penalties, if any, related to unrecognized tax benefits in income taxes.

The Company does not have a liability nor does it expect any significant changes in unrecognized tax benefits during the next twelve months.

In May 2007, the FASB issued FASB Staff Position (FSP) FIN 48-1, Definition of Settlement in FASB Interpretation No. 48 (FSP FIN 48-1). The FSP addressed whether it is appropriate for a company to recognize a previously unrecognized tax benefit when the only factor that has changed, since determining that a benefit should not be recognized, was the completion of an examination or audit by a taxing authority. The FSP is effective January 1, 2007, the date the Company's initial adoption of FIN 48. The adoption of FSP Fin 48-1 did not have a material effect on the Company's results of operations, financial position or liquidity.

In September 2006, the FASB issued Emerging Issues Task Force Issue No. 06-5, *Accounting for Purchase of Life Insurance – Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4 (EITF06-5)*. EITF 06-5 provides additional guidance on determining the amount that can be realized under a corporate-owned life insurance contract (that is, converted to cash) based upon how the contract is assumed to be hypothetically settled. The adoption of EITF 06-5 effective January 1, 2007 did not have a material effect on the Company's results of operations, financial position or liquidity.

Fair Value Measurements

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value measurement. It applies to other pronouncements that require or permit fair value but does not require any new fair value measurements. The statement defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."

FAS 157 establishes a fair value hierarchy to increase consistency and comparability in fair value measurements and disclosures. The hierarchy is based on the input used in valuation and gives the highest priority to quoted prices in active markets. The highest possible level should be used to measure fair value.

In February 2008, FASB issued FSP FAS 157-2, *Effective Date of FASB Statement No. 157 (FSP FAS 157-2)*, which permits a one-year deferral of the application of FASB Statement No. 157, *Fair Value Measurements* for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually).

The Company adopted FAS 157 and FSP FAS 157-2 effective January 1, 2008. Accordingly, the provisions of FAS 157 were not applied to goodwill and other intangible assets held by the Company and will be measured annually for impairment testing purposes only. The adoption of FAS 157, for all other assets and liabilities held by the Company did not have a material effect on the Company's results of operations, financial position or liquidity.

Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (FAA 159). FAS 159 permits an entity to irrevocably elect fair value on a contract-by-contract basis as the initial and subsequent measurement attributed for many financial assets and liabilities and certain other items including property and casualty insurance contracts. Entities electing the fair value option would be required to recognize changes in fair value in earnings and to expense upfront costs and fees associated with the item for which the fair value option is elected. Entities electing the fair value option are required to distinguish on the face of the statement of financial position, the fair value of assets and liabilities for which the fair value option has been elected and similar assets and liabilities measured using another measurement attribute. An entity can accomplish this by either reporting the fair value and non-fair value carrying amounts as separate line items or aggregate those amounts and disclose parenthetically the amount of fair value included in the aggregate amount.

FAS 159 is effective for fiscal years beginning after November 15, 2007. Upon adoption, an entity is permitted to elect the fair value option irrevocably for any existing asset or liability within the scope of the standard. The adjustment to reflect the difference between the fair value and the carrying amount would be accounted for as a cumulative-effect adjustment to retained earnings as of the date of initial adoption. Retrospective application would not be permitted. The Company did not elect the fair value option for assets and liabilities currently held upon its adoption of FAS 159 effective January 1, 2008. Therefore FAS 159 did not have an impact on the Company's results of operations, financial condition or liquidity.

Collateral Assignment Split-Dollar Life Insurance Arrangements

In March 2007, the FASB issued Emerging Issues Task Force Issue No. 06-10, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements* (EITF 06-10). EITF 06-10 provides guidance on the recognition and measurement of assets related to collateral assignment split-dollar life insurance arrangements. The Company adopted provisions of EITF 06-10 effective January 1, 2008, EITF 06-10 did not have a material effect on its results of operations, financial condition or liquidity.

(3) Earnings Per Share

The following is a reconciliation of the numerators and denominators of the basic and diluted EPS computations for the three-month periods ended June 30, 2008 and 2007:

	<u>Earnings</u>	<u>Weighted Average Shares Outstanding</u>	<u>Per-Share Amount</u>
<u>2008:</u>			
Basic EPS:			
Earnings available to stockholders	\$556,079	1,634,042	\$.34
Effect of Dilutive Securities:			
Stock options	<u> --</u>	<u> 133,883</u>	
Diluted EPS:			
Earnings available to stockholders	<u>\$556,079</u>	<u>1,767,925</u>	<u>\$.31</u>
<u>2007:</u>			
Basic EPS:			
Earnings available to stockholders	\$1,101,205	1,882,967	\$.58
Effect of Dilutive Securities:			
Stock options	<u> --</u>	<u> 141,986</u>	
Diluted EPS:			
Earnings available to stockholders	<u>\$1,101,205</u>	<u>2,024,953</u>	<u>\$.54</u>

The following is a reconciliation of the numerators and denominators of the basic and diluted EPS computations for the six-month periods ended June 30, 2008 and 2007:

	<u>Earnings</u>	<u>Weighted Average Shares Outstanding</u>	<u>Per-Share Amount</u>
<u>2008:</u>			
Basic EPS:			
Earnings available to stockholders	\$1,101,147	1,708,503	\$.64
Effect of Dilutive Securities:			
Stock options	<u> --</u>	<u> 139,542</u>	
Diluted EPS:			
Earnings available to stockholders	<u>\$1,101,147</u>	<u>1,848,045</u>	<u>\$.60</u>
<u>2007:</u>			
Basic EPS:			
Earnings available to stockholders	\$2,174,041	1,890,965	\$1.15
Effect of Dilutive Securities:			
Stock options	<u> --</u>	<u> 137,808</u>	
Diluted EPS:			
Earnings available to stockholders	<u>\$2,174,041</u>	<u>2,028,773</u>	<u>\$1.07</u>

Income taxes paid during the six months ended June 30, 2008 and 2007 was \$958,501 and \$1,254,874 respectively. Interest paid for the six months ended June 30, 2008 and 2007 was \$255,532 and \$387,101, respectively.

(5) Comprehensive Income (Loss)

The following table summarizes reclassification adjustments for other comprehensive income (loss) and the related tax effects for the six months ended June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Unrealized losses on investments:		
Unrealized holding losses arising during period	\$(478,648)	(979,872)
Less reclassification adjustment for losses included in net income	(122,412)	(16,720)
Unrealized gain on derivatives qualifying as cash flow hedges	<u>(19,511)</u>	<u>2,097</u>
Other comprehensive income (loss)	<u>\$(620,571)</u>	<u>(994,495)</u>

(6) 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.

The Company applied the recognition and measurement principles of SFAS 123R, Share Based Payment beginning January 1, 2006. Compensation expense of \$43,892 and \$70,488 is reflected in net earnings for the six months ended June 30, 2008 and 2007, respectively.

As of June 30, 2008 there were 359,000 stock options outstanding of which 62,667 were not yet vested. The compensation costs related to non-vested share compensation arrangements granted but not yet recognized was approximately \$85,000 as of June 30, 2008. The Company expects to recognize that cost over a weighted average period of 1.9 years.

(7) 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 collateralized mortgage obligations (CMOs). CMOs typically have high credit quality, offer good liquidity, and provide a significant advantage in yield and total return 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. This drives the investment process to generally favor prepayment protected CMO tranches including planned amortization classes and last cash flow tranches. 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 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. Additionally, for certain securitized financial assets with contractual cash flows (including asset backed securities), EITF 99-20 requires the Company to periodically update its best estimate of cash flows over the life of the security. 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 issue. 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.

The amortized cost and fair value of investments in fixed maturities classified as available for sale and equity securities were as follows:

	<u>June 30, 2008</u>			
	<u>Amortized Cost</u>	<u>Gross Gains</u>	<u>Gross Losses</u>	<u>Fair Value</u>
Fixed Maturities:				
States, municipalities and political subdivisions	\$ 789,725	--	20,586	769,139
U.S. Government and government agencies	14,030,489	665,484	--	14,695,973
Mortgage-backed securities	32,859,841	205,677	651,981	32,413,537
Industrial and miscellaneous	2,500,000	615	53,810	2,446,805
Redeemable preferred securities	<u>8,675,000</u>	<u>400</u>	<u>1,883,490</u>	<u>6,791,910</u>
	<u>\$58,855,055</u>	<u>872,176</u>	<u>2,609,867</u>	<u>57,117,364</u>
Equity Securities	<u>\$ 3,963,359</u>	<u>23,859</u>	<u>882,980</u>	<u>3,104,278</u>

	<u>June 30, 2007</u>			
	<u>Amortized Cost</u>	<u>Gross Gains</u>	<u>Gross Losses</u>	<u>Fair Value</u>
Fixed Maturities:				
States, municipalities and political subdivisions	\$ 740,890	--	23,505	717,385
U.S. Government and government agencies	14,237,204	15,404	126,902	14,125,706
Mortgage-backed securities	40,368,447	70,662	539,370	39,899,737
Industrial and miscellaneous	2,500,000	--	80,835	2,419,165
Redeemable preferred securities	<u>11,212,500</u>	<u>20,400</u>	<u>296,245</u>	<u>10,936,655</u>
	<u>\$69,059,041</u>	<u>10,466</u>	<u>1,066,857</u>	<u>68,098,648</u>
Equity Securities	<u>\$ 4,463,359</u>	<u>144,917</u>	<u>109,300</u>	<u>4,498,976</u>

The gross unrealized investment losses and related fair value for fixed maturities and equity securities at June 30, 2008 and 2007 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>2008:</u>						
Fixed maturities:						
States, municipalities and political subdivisions	\$ 256,729	7,520	512,410	13,066	769,139	20,586
United States government and government agencies	--	--	--	--	--	--
Mortgage-backed securities	9,717,756	436,878	6,708,586	215,103	16,426,342	651,981
Industrial and miscellaneous	1,474,645	25,355	471,545	28,455	1,946,190	53,810
Redeemable preferred - securities	<u>1,087,410</u>	<u>587,590</u>	<u>4,703,500</u>	<u>1,295,500</u>	<u>5,790,910</u>	<u>1,883,090</u>
Total fixed maturities	12,536,540	1,057,343	12,396,041	1,552,124	24,932,581	2,609,467
Equity securities – perpetual preferred:						
Total equity	<u>953,720</u>	<u>196,280</u>	<u>2,046,100</u>	<u>686,700</u>	<u>2,999,820</u>	<u>882,980</u>
Total temporarily impaired securities	<u>\$13,490,260</u>	<u>1,253,623</u>	<u>14,442,141</u>	<u>2,238,824</u>	<u>27,932,401</u>	<u>3,492,447</u>

	<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>2007:</u>						
Fixed maturities:						
States, municipalities and political subdivisions	\$ ---	---	717,385	23,505	717,385	23,505
United States government and government agencies	5,932,611	72,442	4,224,335	54,460	10,156,946	126,902
Mortgage-backed securities	4,960,110	171,992	25,611,056	367,378	30,571,166	539,370
Industrial and miscellaneous	1,441,135	58,865	978,030	21,970	2,419,165	80,835
Redeemable preferred - securities	<u>6,311,655</u>	<u>150,845</u>	<u>3,104,600</u>	<u>145,400</u>	<u>9,416,255</u>	<u>296,245</u>
Total fixed maturities	18,645,511	454,144	34,635,406	612,713	53,280,917	1,066,857
Equity securities – perpetual preferred:						
Total equity	<u>740,700</u>	<u>9,300</u>	<u>1,882,800</u>	<u>100,000</u>	<u>2,623,500</u>	<u>109,300</u>
Total temporarily impaired securities	<u>\$19,386,211</u>	<u>463,444</u>	<u>36,518,216</u>	<u>712,713</u>	<u>55,904,417</u>	<u>1,176,157</u>

Management has determined that the above unrealized losses were temporary.

Effective January 1, 2008 on a prospective basis, we determined the fair values of certain financial instruments based on the fair value hierarchy established in Statement of Financial Accounting Standard No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value

Level 1: quoted price (unadjusted) in active markets for identical assets.

Level 2: inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the instrument

Level 3: inputs to the valuation methodology are unobservable for the asset or liability

SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

To measure fair value, we obtain quoted market prices for our available-for-sale securities.

Assets measured at fair value on a recurring basis are summarized below:

Description	As of June 30, 2008			Total
	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Available-for- Sale Securities	<u>\$57,117,364</u>	\$ <u>---</u>	\$ <u>---</u>	<u>\$57,117,364</u>
Total	<u>\$57,117,364</u>	\$ <u>---</u>	\$ <u>---</u>	<u>\$57,117,364</u>

As noted in the above table, we do not have any assets measured at fair value on a recurring basis using significant other observable inputs (Level 2) or significant unobservable inputs (Level 3) during the period.

(8) Segment Reporting

The Company had two reportable operating segments: ACMAT Contracting and ACSTAR Bonding. The Company's reportable segments represent 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, primarily through ACSTAR, surety bonds written for prime, specialty trade, environmental, asbestos and lead abatement contractors and miscellaneous obligations. ACSTAR also offers 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 insurance subsidiaries as well as 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 two segments for the three and six-month periods ended June 30, 2008 and 2007 is summarized as follows:

	Three Months ended		Six Months ended	
	2008	2007	2008	2007
Revenues:				
ACSTAR Bonding	\$2,767,386	3,560,780	5,651,172	7,527,021
ACMAT Contracting	<u>2,187,147</u>	<u>2,118,668</u>	<u>3,404,014</u>	<u>3,976,432</u>
	<u>\$4,954,533</u>	<u>5,679,448</u>	<u>9,055,186</u>	<u>11,503,453</u>
Operating Earnings (Loss):				
ACSTAR Bonding	\$1,366,087	1,961,101	2,748,537	4,104,412
ACMAT Contracting	<u>(386,252)</u>	<u>(123,463)</u>	<u>(778,430)</u>	<u>(436,486)</u>
	<u>\$ 979,835</u>	<u>1,837,638</u>	<u>1,970,107</u>	<u>3,667,926</u>
Depreciation and Amortization:				
ACSTAR Bonding	\$(13,524)	(54,980)	(57,517)	(101,112)
ACMAT Contracting	<u>111,247</u>	<u>109,460</u>	<u>221,675</u>	<u>222,980</u>
	<u>\$ 97,723</u>	<u>54,480</u>	<u>164,158</u>	<u>121,868</u>
Identifiable Assets:				
		June 30, 2008		December 31, 2007
ACSTAR Bonding		\$ 90,457,223		94,782,182
ACMAT Contracting		<u>20,580,729</u>		<u>26,991,056</u>
		<u>\$111,037,954</u>		<u>121,773,238</u>

The components of revenue for each segment for the three and six-month periods ended June 30, 2008 and 2007 are as follows:

	<u>Three Months ended</u>		<u>Six Months ended</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
ACSTAR Bonding:				
Premiums	\$1,946,987	2,452,315	4,084,099	5,374,840
Investment income, net	831,269	1,116,811	1,718,556	2,198,725
Capital gains (losses)	--	--	(140,891)	(14,052)
Other	<u>(10,870)</u>	<u>(8,346)</u>	<u>(10,592)</u>	<u>(32,492)</u>
	<u>\$2,767,386</u>	<u>3,560,780</u>	<u>5,651,172</u>	<u>7,527,021</u>
ACMAT Contracting:				
Contract revenues	\$1,557,123	1,274,893	2,062,835	2,369,760
Investment income, net	121,602	191,041	278,099	367,330
Intersegment revenue:				
Rental income	79,150	79,150	158,299	158,299
Underwriting services, agency commissions and funds administration services	328,177	410,421	647,933	865,049
Capital gains (losses)	(426)	(2,668)	18,479	(2,668)
Other	<u>101,521</u>	<u>165,831</u>	<u>238,369</u>	<u>218,662</u>
	<u>\$2,187,147</u>	<u>2,118,668</u>	<u>3,404,014</u>	<u>3,976,432</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>Three Months ended</u>		<u>Six Months ended</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Revenue:				
Total revenue for reportable segments	\$4,954,533	5,679,448	9,055,186	11,503,453
Intersegment eliminations	<u>(249,362)</u>	<u>(297,754)</u>	<u>(514,595)</u>	<u>(602,271)</u>
	<u>\$4,705,171</u>	<u>5,381,694</u>	<u>8,540,591</u>	<u>10,901,182</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. Foreign revenues are not significant.

	<u>Three Months ended</u>		<u>Six Months ended</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Operating Earnings:				
Total operating earnings for reportable segments	\$979,836	1,837,638	1,970,148	3,667,926
Interest expense	<u>(110,505)</u>	<u>(187,940)</u>	<u>(251,377)</u>	<u>(384,211)</u>
	<u>\$869,331</u>	<u>1,649,698</u>	<u>1,718,771</u>	<u>3,283,715</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.