

ACMAT CORPORATION AND SUBSIDIARIES  
SEPTEMBER 30, 2006

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ACMAT CORPORATION AND SUBSIDIARIES  
Consolidated Balance Sheets

<u>Assets</u>	September 30, <u>2006</u> (Unaudited)	December 31, <u>2005</u>
Investments:		
Fixed maturities-available for sale at fair value (Cost of \$73,135,044 in 2006 and \$80,003,030 in 2005)	\$72,676,674	79,436,415
Equity securities, at fair value (Cost of \$13,194,200 in 2006 and \$10,074,759 in 2005)	13,331,755	10,086,263
Short-term investments, at cost which approximates fair value	<u>2,494,849</u>	<u>9,281,841</u>
Total investments	88,503,278	98,804,519
Cash and cash equivalents	20,534,227	14,729,289
Accrued interest receivable	436,695	514,629
Receivables, net of allowance for doubtful accounts of \$302,606 in 2006 and 2005	2,011,428	1,718,382
Reinsurance recoverable:		
Unpaid losses	4,176,922	3,896,869
Paid losses	33,349	164,118
Prepaid expenses	402,601	171,559
Deferred income taxes	203,642	370,888
Property & equipment, net	10,769,615	10,874,334
Deferred policy acquisition costs	1,218,385	1,219,209
Other assets	1,277,208	1,294,130
Intangibles	<u>1,920,360</u>	<u>1,920,360</u>
	<u>\$131,487,710</u>	<u>135,678,286</u>
 <u>Liabilities &amp; Stockholders' Equity</u>		
Accounts payable	\$ 2,373,595	2,861,329
Reserves for losses and loss adjustment expenses	21,910,286	23,102,777
Unearned premiums	5,088,063	4,998,721
Collateral held	36,397,929	36,508,599
Income taxes	555,585	282,595
Accrued liabilities	4,560,612	3,051,273
Long-term debt	<u>11,940,866</u>	<u>13,883,988</u>
Total liabilities	82,826,936	84,689,282
 Stockholders' Equity:		
Common Stock (No par value; 3,500,000 shares authorized; 508,585 and 510,585 shares issued and outstanding)	508,585	510,585
Class A Stock (No par value; 10,000,000 shares authorized; 1,423,553 and 1,699,848 shares issued and outstanding)	1,423,553	1,699,848
Retained earnings	46,939,178	49,220,834
Accumulated other comprehensive loss	<u>(210,542)</u>	<u>(442,263)</u>
Total stockholders' equity	<u>48,660,774</u>	<u>50,989,004</u>
	<u>\$131,487,710</u>	<u>135,678,286</u>

See Notes to Unaudited Consolidated Financial Statements.

ACMAT CORPORATION AND SUBSIDIARIES  
Consolidated Statements of Earnings (Unaudited)

	Three months ended		Nine months ended	
	September 30		September 30	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Contract revenues	\$1,696,677	767,743	4,970,035	2,828,238
Earned premiums	3,427,894	3,408,003	9,287,052	9,920,858
Investment income, net	1,343,716	1,183,798	3,863,288	3,048,936
Net realized capital losses	(21,571)	(1,246)	(47,962)	(9,023)
Other income	<u>184,809</u>	<u>169,860</u>	<u>591,792</u>	<u>649,830</u>
	<u>6,631,525</u>	<u>5,528,158</u>	<u>18,664,205</u>	<u>16,438,839</u>
Cost of contract revenues	1,683,342	829,506	5,125,509	2,827,218
Losses and loss adjustment expenses	510,389	921,286	1,978,403	3,162,085
Amortization of policy acquisition costs	847,418	696,556	1,958,941	2,064,651
General and administrative expenses	1,168,654	1,168,101	3,584,762	3,576,791
Interest expense	<u>213,441</u>	<u>230,274</u>	<u>659,466</u>	<u>696,765</u>
	<u>4,423,244</u>	<u>3,845,723</u>	<u>13,307,081</u>	<u>12,327,510</u>
Earnings before income taxes	2,208,281	1,682,435	5,357,124	4,111,329
Income taxes	<u>755,197</u>	<u>578,434</u>	<u>1,825,550</u>	<u>1,411,810</u>
Net earnings	<u>\$1,453,084</u>	<u>1,104,001</u>	<u>3,531,574</u>	<u>2,699,519</u>
Basic earnings per share	\$ .75	.49	1.68	1.20
Diluted earnings per share	\$ .71	.48	1.60	1.17

See Notes to Unaudited Consolidated Financial Statements.

ACMAT CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Unaudited)  
September 30, 2006 and 2005

	Common Stock Par Value	Class A Stock Par Value	Retained Earnings	Accumulated Other Comprehensive Income(Loss)	Total Stockholders' Equity
Balance as of December 31, 2004	\$540,329	1,738,478	41,676,900	108,002	44,063,709
Comprehensive income:					
Net unrealized losses on debt and equity securities, net of reclassification	-	-	-	(596,010)	(596,010)
Net unrealized gains on derivatives qualifying as cash flow hedges	-	-	-	(97,371)	(97,371)
Net earnings	-	-	2,699,519	-	<u>2,699,519</u>
Total comprehensive income					2,006,138
Acquisition and retirement of 994 shares of Common Stock	(994)	-	(8,599)	-	(9,593)
Acquisition and retirement of 38,630 shares of Class A Stock	<u>-</u>	<u>(38,630)</u>	<u>(468,447)</u>	<u>-</u>	<u>(507,077)</u>
Balance as of September 30, 2005	<u>\$539,335</u>	<u>1,699,848</u>	<u>43,899,373</u>	<u>(585,379)</u>	<u>45,553,177</u>
Balance as of December 31, 2005	\$510,585	1,699,848	49,220,834	(442,263)	50,989,004
Comprehensive income:					
Net unrealized gains on debt and equity securities, net of reclassification	-	-	-	229,040	229,040
Net unrealized gains on derivatives qualifying as cash flow hedges	-	-	-	2,681	2,681
Net earnings	-	-	3,531,574	-	<u>3,531,574</u>
Total comprehensive income					3,763,295
Stock based compensation	-	-	153,642	-	153,642
Acquisition and retirement of 2,000 shares of Common Stock	(2,000)	-	(39,100)	-	(41,100)
Acquisition and retirement of 307,295 shares of Class A Stock	-	(307,295)	(6,151,522)	-	(6,458,817)
Issuance of 31,000 shares of Class A Stock pursuant to stock options	<u>-</u>	<u>31,000</u>	<u>223,750</u>	<u>-</u>	<u>254,750</u>
Balance as of September 30, 2006	<u>\$508,585</u>	<u>1,423,553</u>	<u>46,939,178</u>	<u>(210,542)</u>	<u>48,660,774</u>

See Notes to Unaudited Consolidated Financial Statements.

ACMAT CORPORATION AND SUBSIDIARIES  
Consolidated Statements of Cash Flows (Unaudited)  
Nine Months Ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Net earnings	\$3,531,574	2,699,519
Adjustments to reconcile net earnings to net cash used for operating activities:		
Stock based compensation	153,642	--
Depreciation and amortization	311,389	430,720
Net realized capital losses	47,962	9,023
Changes in:		
Accrued interest receivable	77,934	7,301
Reinsurance recoverable	(149,284)	(191,991)
Receivables, net	(293,046)	1,475,466
Deferred policy acquisition costs	824	430,059
Prepaid expenses and other assets	(214,120)	4,146,867
Accounts payable and other accrued liabilities	1,024,286	(1,326,046)
Reserves for losses and loss adjustment expenses	(1,192,491)	(89,292)
Collateral held	(110,670)	(433,273)
Income taxes	440,236	597,027
Unearned premiums	<u>89,342</u>	<u>(1,611,405)</u>
Net cash provided by operating activities	<u>3,717,578</u>	<u>6,143,975</u>
Cash flows from investing activities:		
Proceeds from investments sold or matured:		
Fixed maturities-sold	5,676,498	1,000,000
Fixed maturities-matured	16,866,051	9,311,978
Equity securities	508,000	647,183
Purchases of:		
Fixed maturities	(15,633,307)	(22,516,684)
Equity securities	(3,700,000)	(1,500,000)
Short-term investments, net	6,786,992	(6,709,476)
Capital expenditures	<u>(228,585)</u>	<u>(247,288)</u>
Net cash provided by (used for) investing activities	<u>10,275,649</u>	<u>(20,014,287)</u>
Cash flows from financing activities:		
Repayments on long-term debt	(1,943,122)	(1,881,765)
Issuance of Class A Stock	254,750	---
Payments for acquisition & retirement of stock	<u>(6,499,917)</u>	<u>(516,670)</u>
Net cash used for financing activities	<u>(8,188,289)</u>	<u>(2,398,435)</u>
Net change in cash	5,804,938	(16,268,747)
Cash at beginning of period	<u>14,729,289</u>	<u>28,774,539</u>
Cash at end of period	<u>\$20,534,227</u>	<u>12,505,792</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, 2005.

(2) 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 September 30, 2006 and 2005:

	<u>Earnings</u>	<u>Weighted Average Shares Outstanding</u>	<u>Per-Share Amount</u>
<u>2006:</u>			
Basic EPS:			
Earnings available to stockholders	\$1,453,084	1,934,831	\$ .75
Effect of Dilutive Securities:			
Stock options	<u>    --</u>	<u>120,638</u>	
Diluted EPS:			
Earnings available to stockholders	\$1,453,084	2,055,469	\$ .71
<u>2005:</u>			
Basic EPS:			
Earnings available to stockholders	\$1,104,001	2,239,545	\$ .49
Effect of Dilutive Securities:			
Stock options	<u>    --</u>	<u>69,836</u>	
Diluted EPS:			
Earnings available to stockholders	<u>\$1,104,001</u>	<u>2,309,381</u>	<u>\$ .48</u>

The following is a reconciliation of the numerators and denominators of the basic and diluted EPS computations for the nine-month periods ended September 30, 2006 and 2005:

	<u>Earnings</u>	<u>Weighted Average Shares Outstanding</u>	<u>Per-Share Amount</u>
<u>2006:</u>			
Basic EPS:			
Earnings available to stockholders	\$3,531,574	2,099,055	\$1.68
Effect of Dilutive Securities:			
Stock options	<u>          --</u>	<u>106,291</u>	
Diluted EPS:			
Earnings available to stockholders	<u>\$3,531,574</u>	<u>2,205,346</u>	<u>\$1.60</u>
<u>2005:</u>			
Basic EPS:			
Earnings available to stockholders	\$2,699,519	2,253,386	\$1.20
Effect of Dilutive Securities:			
Stock options	<u>          --</u>	<u>61,085</u>	
Diluted EPS:			
Earnings available to stockholders	<u>\$2,699,519</u>	<u>2,314,471</u>	<u>\$1.17</u>

### (3) Supplemental Cash Flow Information

Income taxes paid during the nine months ended September 30, 2006 and 2005 was \$1,385,314 and \$814,785, respectively. Interest paid for the nine months ended September 30, 2006 and 2005 was \$660,745 and \$694,650, respectively.

### (4) Comprehensive Income (Loss)

The following table summarizes reclassification adjustments for other comprehensive income (loss) and the related tax effects for the nine months ended September 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Unrealized losses on investments:		
Unrealized holding gains (losses) arising during period	\$181,078	(605,033)
Less reclassification adjustment for losses included in net income	(47,962)	(9,023)
Unrealized gain (loss) on derivatives qualifying as cash flow hedges	<u>2,681</u>	<u>(97,371)</u>
Other comprehensive income (loss)	<u>\$231,721</u>	<u>(693,381)</u>

### (5) 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. The Company uses a variation of the Black-Scholes option pricing model to value stock options.

Compensation expense of \$153,642 is reflected in compensation expense for the nine months ended September 30, 2006. Compensation expense of \$39,496 is reflected in compensation expense for the three months ended September 30, 2006. The Company applied the recognition and measurement principles of SFAS 123R, Share Based Payment beginning January 1, 2006.

As of September 30, 2006 there were 378,000 stock options outstanding of which 132,135 were not yet vested. The compensation costs related to non-vested share compensation arrangements granted but not yet recognized was approximately \$310,000 as of September 30, 2006. The Company expects to recognize that cost over a weighted average period of 3.6 years.

The pro forma fair value of stock-based compensation in the Company's Common and Class A Shares for the three and nine months ended September 30, 2005 were as follows:

	<u>Three Months Ended</u> 2005	<u>Nine Months Ended</u> 2005
Net earnings as reported	\$1,104,001	2,699,519
Add: Stock-based employee compensation reported in net earnings, net of related tax effects	---	---
Deduct: Stock-based compensation expense determined under fair value based method, net of related tax effects	<u>(23,612)</u>	<u>(80,265)</u>
Net earnings, pro forma	<u>\$1,080,389</u>	<u>2,619,254</u>
Earnings per share		
Basic and diluted – as reported	\$.49/\$.48	\$1.20/\$1.17
Basic and diluted – pro forma	\$.48/\$.47	\$1.16/\$1.13

The significant assumptions used during the year in estimating the fair value on the date of the grant for options and granted in 2006 and 2005 were as follows:

	<u>2005</u>
Expected life of stock options, in years	6
Expected volatility of ACMAT stock	30%
Risk-free interest rate	4.0
Expected annual dividend yield	---
Expected annual forfeiture rate	---

No options were granted in 2006.

#### (6) 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;
- Determination of the status of each analyzed investment as other-than-temporary or not.

The gross unrealized investment losses and related fair value for fixed maturities and equity securities at September 30, 2006 and 2005 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>2006:</u>						
Fixed maturities:						
States, municipalities and political subdivisions	\$ --	--	731,604	13,451	731,604	13,451
United States government and government agencies	267,718	3,807	6,104,034	113,134	6,371,752	116,941
Mortgage-backed securities	27,127,536	236,586	4,473,578	70,468	31,601,114	307,054
Industrial and miscellaneous	<u>416,483</u>	<u>275</u>	<u>9,191,017</u>	<u>188,028</u>	<u>9,607,500</u>	<u>188,303</u>
Total fixed maturities	27,811,737	240,668	20,500,233	385,081	48,311,970	625,749
Equity securities – common stocks:						
Equity securities – redeemable preferred:	--	--	--	--	--	--
Equity securities – perpetual preferred:	3,725,300	36,100	2,439,400	60,600	6,164,700	96,700
Total equity	<u>990,800</u>	<u>9,200</u>	<u>980,800</u>	<u>19,200</u>	<u>1,971,600</u>	<u>28,400</u>
Total temporarily impaired securities	4,716,100	45,300	3,420,200	79,800	8,136,300	125,100
	<u>\$32,527,837</u>	<u>285,968</u>	<u>23,920,433</u>	<u>464,881</u>	<u>56,448,270</u>	<u>750,849</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>2005:</u>						
Fixed maturities:						
United States government and government agencies	\$ ---	---	531,240	9,644	531,240	9,644
Mortgage-backed securities	9,422,391	123,512	6,649,850	101,451	16,072,241	224,963
States, municipalities	8,665,424	154,357	6,796,393	100,516	15,461,817	254,873
Industrial and miscellaneous	<u>8,038,113</u>	<u>60,887</u>	<u>5,052,674</u>	<u>246,372</u>	<u>13,090,787</u>	<u>307,259</u>
Total fixed maturities	26,125,928	338,756	19,030,157	457,983	45,156,085	796,739
Equity securities – common stocks:						
Equity securities – redeemable preferred:	---	---	0	0	0	0
Total equity	0	0	2,288,200	211,800	2,288,200	211,800
	<u>0</u>	<u>0</u>	<u>1,595,520</u>	<u>4,480</u>	<u>1,595,520</u>	<u>4,480</u>
Total temporarily impaired securities	0	0	3,883,720	216,280	3,883,720	216,280
	<u>\$26,125,928</u>	<u>338,756</u>	<u>22,913,877</u>	<u>674,263</u>	<u>49,039,805</u>	<u>1,013,019</u>

#### (7) Segment Reporting

The Company had three reportable operating segments: ACMAT Contracting, ACSTAR Bonding and United Coastal Liability Insurance. 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 in the Company's annual report.

On November 22, 2005, the Company and ACSTAR completed the sale of their shares in United Coastal to Rockhill Holding Company. United Coastal was wholly-owned by ACMAT and ACSTAR.

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 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.

The United Coastal Liability Insurance operating segment offered specific lines of liability insurance as an approved non-admitted excess and surplus lines insurer in forty-six states, Puerto Rico, the Virgin Islands and the District of Columbia. United Coastal offered claims made and occurrence policies for specific specialty lines of liability insurance through certain excess and surplus lines brokers who are licensed and regulated by the state insurance department(s) in the state(s) in which they operate. United Coastal offered general, professional, products, pollution, asbestos and lead liability insurance to specialty trade contractors, environmental contractors, property owner, storage and treatment facilities and professionals. United Coastal also offered products liability insurance to manufacturers and distributors.

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 and nine-month periods ended September 30, 2006 and 2005 is summarized as follows:

	<u>Three Months ended</u>		<u>Nine Months ended</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenues:				
ACSTAR Bonding	\$4,445,129	3,484,116	12,240,996	8,621,018
United Coastal Liability Insurance	--	948,279	--	3,991,272
ACMAT Contracting	<u>2,527,805</u>	<u>1,625,659</u>	<u>7,644,449</u>	<u>5,370,689</u>
	<u>\$6,972,934</u>	<u>6,058,054</u>	<u>19,885,445</u>	<u>17,982,979</u>
Operating Earnings (Loss):				
ACSTAR Bonding	\$2,598,883	1,877,324	6,561,912	4,383,922
United Coastal Liability Insurance	--	210,260	--	751,883
ACMAT Contracting	<u>(177,161)</u>	<u>(174,875)</u>	<u>(545,322)</u>	<u>(327,711)</u>
	<u>\$2,421,722</u>	<u>1,912,709</u>	<u>6,016,590</u>	<u>4,808,094</u>
Depreciation and Amortization:				
ACSTAR Bonding	\$(40,333)	38,085	(57,353)	95,264
United Coastal Liability Insurance	--	(6,454)	--	3,136
ACMAT Contracting	<u>116,070</u>	<u>106,666</u>	<u>368,742</u>	<u>332,320</u>
	<u>\$ 75,737</u>	<u>138,297</u>	<u>311,389</u>	<u>430,720</u>
Identifiable Assets:	<u>September 30, 2006</u>		<u>December 31, 2005</u>	
ACSTAR Bonding	\$104,429,634		101,794,119	
ACMAT Contracting	<u>27,058,076</u>		<u>33,884,167</u>	
	<u>\$131,487,710</u>		<u>135,678,286</u>	

The components of revenue for each segment for the three and nine-month periods ended September 30, 2006 and 2005 are as follows:

	<u>Three Months ended</u>		<u>Nine Months ended</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<b>ACSTAR Bonding:</b>				
Premiums	\$3,427,894	2,808,789	9,287,052	6,976,074
Investment income, net	1,077,888	757,403	3,031,677	1,784,591
Capital gains (losses)	(21,572)	(1,246)	(21,465)	(9,952)
Other	<u>(39,082)</u>	<u>(80,830)</u>	<u>(56,268)</u>	<u>(129,695)</u>
	<u>\$4,445,129</u>	<u>3,484,116</u>	<u>12,240,996</u>	<u>8,621,018</u>
<b>United Coastal Liability Insurance:</b>				
Premiums	\$ --	599,214	--	2,944,784
Investment income, net	--	345,466	--	1,030,096
Capital gains	--	---	--	929
Other	<u>--</u>	<u>3,599</u>	<u>--</u>	<u>15,463</u>
	<u>\$ --</u>	<u>948,279</u>	<u>--</u>	<u>3,991,272</u>
<b>ACMAT Contracting:</b>				
Contract revenues	\$1,696,677	767,743	4,970,035	2,828,238
Investment income, net	190,402	2,695	599,144	16,182
Capital gains (losses)	--	--	(26,497)	--
<b>Intersegment revenue:</b>				
Rental income	79,149	199,105	237,448	600,106
Underwriting services, agency commissions and funds administration services	463,108	577,333	1,567,814	1,599,056
Other	<u>98,469</u>	<u>78,783</u>	<u>296,505</u>	<u>327,107</u>
	<u>\$2,527,805</u>	<u>1,625,659</u>	<u>7,644,449</u>	<u>5,370,689</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>Nine Months ended</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<b>Revenue:</b>				
Total revenue for reportable segments	\$6,972,934	6,058,054	19,885,445	17,982,979
Intersegment eliminations	<u>(341,409)</u>	<u>(529,896)</u>	<u>(1,221,240)</u>	<u>(1,544,140)</u>
	<u>\$6,631,525</u>	<u>5,528,158</u>	<u>18,664,205</u>	<u>16,438,839</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>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	<b>Operating Earnings:</b>			
Total operating earnings for reportable segments	\$2,421,722	1,912,709	6,016,590	4,808,094
Interest expense	<u>(213,441)</u>	<u>(230,274)</u>	<u>(659,466)</u>	<u>(696,765)</u>
	<u>\$2,208,281</u>	<u>1,682,435</u>	<u>5,357,124</u>	<u>4,111,329</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.