ACMAT CORPORATION AND SUBSIDIARIES

Consolidated Statements of Earnings
Years Ended December 31, 2005 and 2004

	2005	2004
Earned premiums	$12,980,022	15,741,437
Contract revenues	5,527,900	10,993,886
Investment income, net	4,282,155	3,245,392
Sale of subsidiary	7,336,667	---
Net realized capital gains (losses)	(472,403)	60,533
Other income	885,358	794,283
	30,539,699	30,835,531
Cost of contract revenues	5,303,809	10,835,909
Losses and loss adjustment expenses	3,965,966	7,189,370
Amortization of policy acquisition costs	2,646,600	2,791,425
General and administrative expenses	4,821,818	5,014,195
Interest expense	919,767	906,898
	17,657,960	26,737,797
Earnings before income taxes	12,881,739	4,097,734
Income taxes	4,398,017	1,071,656
Net earnings	$8,483,722	3,026,078
Basic earnings per share	$3.77	1.31
Diluted earnings per share	$3.66	1.28

See Notes to Consolidated Financial Statements.

ACMAT CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets
December 31, 2005 and 2004

Assets	2005	2004
Investments:		
Fixed maturities – available for sale at fair value		
(Amortized cost of $80,003,030 in 2005 and $55,726,811 in 2004)	$79,436,415	55,618,928
Equity securities – available for sale at fair value		
(Cost of $10,074,759 in 2005 and $10,204,059 in 2004)	10,086,263	10,447,046
Short-term investments, at cost which approximates fair value	9,281,841	15,362,115
Total Investments	98,804,519	81,428,089
Cash and cash equivalents	14,729,289	28,774,539
Accrued interest receivable	514,629	463,592
Receivables, net of allowance for doubtful accounts of		
$302,606 in 2005 and 2004	1,718,382	2,713,604
Reinsurance recoverable:		
Unpaid losses	3,896,869	3,870,088
Paid losses	164,118	507,545
Prepaid expenses	171,559	188,927
Deferred income taxes	370,888	2,034,038
Property and equipment, net	10,874,334	10,946,328
Deferred policy acquisition costs	1,219,209	1,649,698
Other assets	1,294,130	5,286,874
Intangibles	1,920,360	1,920,360
Total Assets	$135,678,286	139,783,682
Liabilities & Stockholders' Equity		
Accounts payable	$2,861,329	2,169,205
Reserves for losses and loss adjustment expenses	23,102,777	23,169,971
Unearned premiums	4,998,721	6,841,966
Collateral held	36,508,599	44,361,990
Income tax payable	282,595	86,355
Other accrued liabilities	3,051,273	2,690,607
Long-term debt	13,883,988	16,399,879
Total Liabilities	84,689,282	95,719,973
Stockholders' Equity:		
Common Stock (No par value; 3,500,000 shares authorized;		
510,585 and 540,329 shares issued and outstanding)	510,585	540,329
Class A Stock (No par value; 10,000,000 shares authorized;		
1,699,848 and 1,738,478 shares issued and outstanding)	1,699,848	1,738,478
Retained earnings	49,220,834	41,676,900
Accumulated other comprehensive income (loss)	(442,263)	108,002
Total Stockholders' Equity	50,989,004	44,063,709
	$135,678,286	139,783,682

See Notes to Consolidated Financial Statements.

ACMAT CORPORATION AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity
December 31, 2005 and 2004

	Common Stock par value	Class A Stock par value	Retained earnings	Accumulated other comprehensive income (loss)	Total stockholders' equity
Balance as of December 31, 2003	$549,355	1,742,705	39,438,778	351,340	42,082,178
Comprehensive income:					
Net unrealized loss on debt and equity securities, net of reclassification adjustment	---	---	---	(306,222)	(306,222)
Net unrealized gain on derivatives qualifying as hedges	---	---	---	62,884	62,884
Net earnings	---	---	3,026,078	---	3,026,078
Total comprehensive income					2,782,740
Acquisition and retirement of 59,026 shares of Common Stock	(59,026)	---	(771,330)	---	(830,356)
Acquisition and retirement of 108,227 shares of Class A Stock	---	(108,227)	(1,303,126)	---	(1,411,353)
Issuance of 50,000 shares of Common Stock pursuant to stock options	50,000	---	522,500	---	572,500
Issuance of 104,000 shares of Class A Stock pursuant to stock options	---	104,000	764,000	---	868,000
Balance as of December 31, 2004	$540,329	1,738,478	41,676,900	108,002	44,063,709
Comprehensive income:					
Net unrealized loss on debt and equity securities, net of reclassification adjustment	---	---	---	(428,520)	(428,520)
Net unrealized loss on derivatives qualifying as hedges	---	---	---	(121,745)	(121,745)
Net earnings	---	---	8,483,722	---	8,483,722
Total comprehensive income					7,933,457
Acquisition and retirement of 29,744 shares of Common Stock	(29,744)	---	(445,849)	---	(475,593)
Acquisition and retirement of 46,129 shares of Class A Stock	---	(46,129)	(567,073)	---	(613,202)
Issuance of 7,500 shares of Class A Stock pursuant to stock options	---	7,500	73,133	---	80,633
Balance as of December 31, 2005	$510,585	1,699,848	49,220,834	(442,263)	50,989,004

See Notes to Consolidated Financial Statements.

ACMAT CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows
Years ended December 31, 2005 and 2004

	2005	2004
Cash Flows From Operating Activities:		
Net earnings	$8,483,722	3,026,078
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	543,242	703,157
Net realized capital (gains) losses	472,403	(60,533)
Deferred income taxes	1,709,085	120,990
Changes In:		
Accrued interest receivable	(51,037)	(122,141)
Receivables, net	995,222	(490,633)
Reinsurance recoverable	316,646	2,326,023
Deferred policy acquisition costs	430,489	(10,373)
Prepaid expenses and other assets	4,010,112	(1,900,574)
Accounts payable and other liabilities	1,174,535	2,606,548
Collateral held	(7,853,391)	2,643,765
Reserves for losses and loss adjustment expenses	(67,194)	2,321,405
Income taxes	209,373	723,986
Other	14,216	---
Unearned premiums	(1,843,245)	484,519
Net cash provided by operating activities	8,544,178	12,372,217
Cash Flows From Investing Activities:		
Proceeds from investments sold or matured:		
Fixed maturities – sold	26,103,229	4,683,640
Fixed maturities – matured	10,900,441	12,465,842
Equity securities	5,492,397	3,041,340
Purchases Of:		
Fixed maturities	(61,701,247)	(19,949,895)
Equity securities	(5,494,200)	(2,950,695)
Short-term investments, (purchases) sales, net	6,080,274	(14,601,243)
Capital expenditures	(433,136)	(317,038)
Net cash used for investing activities	(19,052,242)	(17,628,049)
Cash Flows From Financing Activities:		
Repayments on long-term debt	(2,515,891)	(2,707,414)
Issuance of Common and Class A Stock	67,500	1,291,500
Payments for acquisition and retirement of stock	(1,088,795)	(2,241,709)
Net cash used for financing activities	(3,537,186)	(3,657,623)
Net change in cash and cash equivalents	(14,045,250)	(8,913,455)
Cash and cash equivalents, beginning of year	28,774,539	37,687,994
Cash and cash equivalents, end of year	$14,729,289	28,774,539

See Notes to Consolidated Financial Statements.

ACMAT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005, 2004 and 2003

(1) Summary of Significant Accounting Policies

(a) Basis of Presentation

The consolidated financial statements include ACMAT Corporation ("ACMAT" or the "Company"), its subsidiaries, including AMINS, Inc., ACSTAR Holdings, Inc. ("ACSTAR Holdings") and ACSTAR Holdings' wholly-owned subsidiary, ACSTAR Insurance Company ("ACSTAR"). On November 22, 2005, United Coastal Insurance ("United Coastal") was sold.

These consolidated financial statements have been prepared in conformity with accounting principles generally accepted ("GAAP") in the United States of America. All significant inter-company accounts and transactions have been eliminated in consolidation.

Certain reclassifications have been made to prior years financial statements to conform to the current year presentation.

(b) Business

The Company had three reportable operating segments: ACMAT Contracting, ACSTAR Bonding and United Coastal Liability Insurance. The Company's reportable segments are primarily the three 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 contractors, specialty trade, environmental remediation and asbestos abatement contractors and others. ACSTAR also offers other miscellaneous surety such as workers' compensation bonds, supply bonds, subdivision bonds and license and permit bonds.

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 to third parties.

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-seven 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 provided specialty general, environmental and professional liability insurance primarily to general contractors, specialty trade and environmental contractors, property owners, as well as architects, consultants and engineers. United Coastal also offered products liability policies to manufacturers and others.

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

The purchase price of approximately $30 million was based upon United Coastal's net assets valued at market plus a premium for United Coastal's insurance authorizations. The transaction resulted in a one-time pre-tax increase in ACMAT's revenues and earnings of approximately $7.3 million.

Effective March 3, 2005, the Company effectively terminated the registration of its Common Stock and its Class A Common Stock under the Securities Exchange Act of 1934. As a result of these filings, the Company's obligation to file with the Securities and Exchange Commission certain reports and forms, including Forms 10-K, 10-Q and 8-K, has been suspended. The Company's Common Stock and Class A Common Stock now trades over-the-counter in the "Pink Sheets" quotation service.

During 2005, 2004 and 2003, customers who individually accounted for more than 10% of consolidated construction contracting revenue are as follows; in 2005 – two customers provided 45%, and 19%, respectively and in 2004 - 4 customers provided 24%, 20%, 20% and 19%.

(c) Investments

Fixed maturities include bonds, notes and redeemable preferred stocks. Equity securities reflect investment in common stock, non-redeemable preferred stock and mutual funds.

Investments are classified as "available for sale" and are reported at fair value, with unrealized gains or losses, net of tax, charged or credited directly to stockholders' equity.

The fair values of investment securities are based on quoted market prices. Premiums and discounts on debt securities are amortized into interest income over the term of the securities in a manner that approximates the interest method. Realized gains and losses on sales of securities are computed using the specific identification method. Any security which management believes has experienced a decline in value which is other than temporary is written down to its fair value and a charge is recorded in net realized capital gains.

Short-term investments, consisting primarily of money market instruments maturing within one year are carried at cost which, along with accrued interest, approximates fair value. Cash and cash equivalents include cash on hand and short-term highly liquid investments of maturities of three months or less when purchased. These investments are carried at cost plus accrued interest which approximates fair value.

(d) Deferred Policy Acquisition Costs

Deferred policy acquisition costs, representing commissions and certain pre-tax underwriting costs, are deferred and amortized pro rata over the contract periods in which the related premiums are earned. Deferred acquisition costs are reviewed to determine if they are recoverable from future income, and if not, are charged to expense. Future investment income attributable to related premiums is taken into account in measuring the recoverable of the carrying value of this asset.

(e) Property and Equipment

Property and equipment are stated at cost net of depreciation. Depreciation is computed using the straight-line method at rates based upon the respective estimated useful lives of the assets. Maintenance and repairs are expensed as incurred.

(f) Intangibles

Intangible assets relate to insurance operating licenses and are deemed to have an indefinite useful life. The Company performs an impairment test at least annually or more frequently if events or conditions indicate that the asset might be impaired. Based on these tests, the Company did not impair any intangible assets.

Prior to adoption of Statement of Financial Accounting Standards No. 142, “Goodwill and Other Intangible Assets” (FAS 142) on January 1, 2002, intangibles were stated at amortized cost and amortized using the straight-line method. Intangibles include insurance operating licenses and goodwill, which represents the excess of cost over the fair market value of net assets acquired. These intangible assets were amortized over periods ranging from 15 to 25 years.

(g) Insurance Reserve Liabilities

Reserves for losses and loss adjustment expenses are established with respect to both reported and incurred but not reported claims for insured risks. The amount of loss reserves for reported claims is primarily based upon a case-by-case evaluation of the type of risk involved, knowledge of the circumstances surrounding the claim and the policy provisions relating to the type of claim. As part of the reserving process, historical data is reviewed and consideration is given to the anticipated impact of various factors such as legal developments and economic conditions, including the effects of inflation. Reserves are monitored and recomputed periodically using new information on reported claims.

Reserves for losses and loss adjustment expenses are estimates at any given point in time of what the Company may have to pay ultimately on incurred losses, including related settlement costs, based on facts and circumstances then known. The Company also reviews its claims reporting patterns, past loss experience, risk factors and current trends and considers their effect in the determination of estimates of incurred but not reported losses. Ultimate losses and loss adjustment expenses are affected by many factors which are difficult to predict, such as claim severity and frequency, inflation levels and unexpected and unfavorable judicial rulings. Reserves for surety claims also consider the amount of collateral held as well as the financial strength of the contractor and its indemnitors. Management believes that the reserves for losses and loss adjustment expenses are adequate to cover the unpaid portion of the ultimate net cost of losses and loss adjustment expenses incurred, including losses incurred but not reported.

(h) Collateral Held

Collateral held represents cash and investments retained by the Company for surety bonds issued by the Company to cover costs of claims or unpaid premiums. The carrying amount of collateral held approximates its fair value because of the short maturity of these instruments.

(i) Reinsurance

In the normal course of business, the Company assumes and cedes reinsurance with other companies. Reinsurance ceded primarily represents excess of loss reinsurance with companies with "A" ratings from the insurance rating organization, A.M. Best Company, Inc. Reinsurance ceded also includes a facultative reinsurance treaty which is applicable to excess policies written over a primary policy issued by the Company for specific projects. Reinsurance is ceded to limit losses from large exposures and to permit recovery of a portion of direct losses; however, such a transfer does not relieve the originating insurer of its liability.

Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured business. The Company evaluates and monitors the financial condition of reinsurers under reinsurance arrangements to minimize its exposure to significant losses from reinsurer insolvencies.

The Company cedes 80% of its bond exposure in excess of $1,000,000 up to $6,000,000 on a per principal basis. The Company also cedes 10% of each and every $1,000,000 policy and cedes 80% of $2,000,000 in excess of $1,000,000.

Reinsurance recoverables include ceded reserves for losses and loss adjustment expenses. Ceded unearned premiums of $739,135 and $1,068,549 at December 31, 2005 and 2004, respectively, are included in other assets. All reinsurance contracts maintained by the Company qualify as short-duration prospective contracts. A summary of reinsurance premiums written and earned is provided below:

	Premiums Written		Premiums Earned	
	2005	2004	2005	2004
Direct	$13,188,776	15,917,499	$15,199,407	15,427,784
Assumed	415,687	15,498	332,500	334,402
Ceded	(2,138,272)	(153,785)	(2,551,885)	(20,749)
Totals	$11,466,191	15,779,212	$12,980,022	15,741,437

Ceded incurred losses and loss adjustment expenses totaled $779,713 and $9,476 for the years ended December 31, 2005 and 2004, respectively. In 2004, ceded premiums written and earned were reduced by $2,080,672 as a result of the commutation of several old reinsurance treaties.

(j) Derivative Financial Instruments

The Company uses interest rate swaps as a means of hedging exposure to interest rate on its long-term debt. The Company does not hold or issue derivative instruments for trading purposes. The Company recognizes all derivatives as either assets or liabilities in the consolidated balance sheet and measure those instruments at fair value. Where applicable, hedge accounting is used to account for derivatives. To qualify for hedge accounting, the changes in value of the derivative must be expected to substantially offset the changes in value of the hedged item. Hedges are monitored to ensure that there is a high correlation between the derivative instruments and the hedged investment. Derivatives that do not qualify for hedge accounting, if any, would be marked to market with the changes in fair value reflected in the consolidated statement of earnings.

(k) Revenue Recognition

Revenue on construction contracts is recorded using the percentage of completion method. Under this method revenues with respect to individual contracts are recognized in the proportion that costs incurred to date relate to total estimated costs. Revenues and cost estimates are subject to revision during the terms of the contracts, and any required adjustments are made in the periods in which the revisions become known. Provisions are made, where applicable, for the entire amount of anticipated future losses on contracts in progress. Construction claims are recorded as revenue at the time of settlement and profit incentives and change orders are included in revenues when their realization is reasonably assured. General and administrative expenses are not allocated to contracts.

Insurance premiums are recognized over the coverage period. Unearned premiums represent the portion of premiums written that is applicable to the unexpired terms of policies in force, calculated on a pro-rata basis.

(l) Income Taxes

The provision for taxes comprises two components, current income taxes and deferred income taxes. Deferred income taxes arise from changes during the year in cumulative temporary differences between the tax basis and book basis of assets and liabilities.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(m) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from reported results using those estimates.

(n) Comprehensive Income

The following table summarizes reclassification adjustments for other comprehensive income and the related tax effects for the years ended December 31, 2005 and 2004:

	2005	2004
Unrealized holding gain (loss) arising during period, net of income tax expense	$(740,306)	(266,270)
Less reclassification adjustment for gains (losses) included in net earnings, net of income tax benefit of ($160,617) in 2005 and net of income tax expense of $20,581 in 2004.	(311,786)	39,952
Unrealized gain (loss) on derivatives qualifying as cash flow hedges	(121,745)	62,884
Other comprehensive income (loss)	$(550,265)	(243,338)

(o) Stock Compensation Costs

The Company accounts for stock options under the recognition and measurement principles of Accounting Principles Board Opinion No. 25 (APB25), “Accounting for Stock Issued to Employees”, and related interpretations.

The stock options were awarded at an exercise price equal to the market value of the underlying common stock on the date of the grant. Accordingly, there has been no employee compensation cost recognized in earnings for the stock options.

FAS 123 provides an alternative to APB 25 whereby fair values may be ascribed to options using a valuation model and amortized to compensation cost over the vesting period of the options. The following tables illustrate the pro forma effect on net earnings and earnings per share for each period indicated as if the Company applied the fair value recognition provisions of FAS 123 to its stock option program. See Note 14 for a description of the method and fair value assumptions used in estimating the fair value of options.

The pro forma fair value of stock-based compensation in the Company’s stock for the year ended December 31, 2005 and 2004 is as follows:

	2005	2004
Net earnings as reported	$8,483,722	3,026,078
Add: Stock-based employee compensation expense included in reported net earnings, net of related tax effects	---	---
Deduct: Stock-based compensation expense determined under fair value based method, net of related tax effects	(267,297)	(283,293)
Net earnings, pro forma	$8,216,425	2,742,785
Earnings per share		
Basic and diluted – as reported	$3.77/3.66	1.31/1.28
Basic and diluted – pro forma	$3.65/3.55	1.19/1.16

ACMAT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(p) Accounting Policies Not Yet Adopted

Share Based Payment
In December 2004, the FASB issued Revised Statement of Financial Standards No. 123, "Share-Based Payment (FAS 123R), an amendment to FAS 123 and a replacement of Accounting Principles Board Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees", and related implementation guidance. FAS 123R requires public entities to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award, and to recognize that cost over the requisite service period.

As of the required effective date, FAS 123R requires entities that use the fair-value method of either recognition or disclosure under FAS 123, to apply a modified version of the prospective application. Under modified prospective application, compensation cost is recognized on or after the required effective date for all unvested awards, based on their grant-date fair value as calculated under FAS 123 for either recognition or pro forma disclosure purposes. FAS 123R is effective January 1, 2006. The Company does not expect the impact of adopting FAS 123R to have a significant effect on operations, financial condition or liquidity.

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 (DAC) 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.

SOP 05-1 is effective for internal replacements occurring in fiscal years beginning after December 15, 2006, with earlier adoption encouraged. The Company does not expect the impact of adopting SOP 05-1 to have a significant effect on operations, financial condition or liquidity.

(2) Investments

Investments at December 31, 2005 and 2004 follows:	AMORTIZED COST	ESTIMATED FAIR VALUE
2005		
Fixed maturities – available for sale:		
Bonds:		
States, municipalities and political subdivisions	$ 1,749,119	1,735,004
United States government and government agencies	10,770,984	10,596,625
Mortgage-backed securities	51,895,478	51,870,271
Industrial and miscellaneous	15,587,449	15,234,515
Total fixed maturities	80,003,030	79,436,415
Equity securities – common stocks:		
Banks, trusts and insurance	80,559	183,463
Equity securities – redeemable preferred stocks:		
Banks, trusts and insurance	1,511,400	1,498,400
Public utilities	500,000	505,200
Industrial and miscellaneous	4,000,000	3,887,200
Equity securities perpetual preferreds:		
Industrial and miscellaneous	3,982,800	4,012,000
Total equity securities	10,074,759	10,086,263
Short-term investments	9,281,841	9,281,841
Total investments	$99,375,931	98,804,519

	AMORTIZED COST	ESTIMATED FAIR VALUE
2004		
Fixed maturities – available for sale:		
Bonds:		
States, municipalities and political subdivisions	$ 544,858	541,800
United States government and government agencies	16,042,267	15,960,298
Mortgage-backed securities	27,826,649	27,929,838
Industrial and miscellaneous	11,313,037	11,186,992
Total fixed maturities	55,726,811	55,618,928
Equity securities – common stocks:		
Banks, trusts and insurance	265,559	258,066
Equity securities – redeemable preferred stocks:		
Banks, trusts and insurance	2,463,500	2,562,020
Public utilities	500,000	535,000
Industrial and miscellaneous	4,375,000	4,471,400
Equity securities perpetual preferreds:		
Industrial and miscellaneous	2,600,000	2,620,560
Total equity securities	10,204,059	10,447,046
Short-term investments	15,362,115	15,362,115
Total investments	$81,292,985	81,428,089

Fair value estimates are made based on quoted market prices and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

On December 31, 2005, the Company's insurance subsidiary had securities with an aggregate fair value of approximately $4 million on deposit with various state regulatory authorities.

The amortized cost and fair value of fixed maturities at December 31, 2005, by effective maturity, follows:

	2005	
	Amortized Cost	Fair Value
Due in one year or less	$ 7,298,654	7,271,364
Due after one year through five years	16,060,329	15,642,311
Due after five years through ten years	2,248,569	2,200,279
Due after ten years	2,500,000	2,452,190
Mortgage-backed securities	51,895,478	51,870,271
Total	$80,003,030	79,436,415

Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

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.

At December 31, 2005 and 2004, the Company held CMOs classified as available for sale with a fair value of $47,725,748 and $26,524,863, respectively. Approximately 92% and 79% of the Company's CMO holdings are fully collateralized by GNMA, FNMA or FHLMC securities at December 31, 2005 and 2004, respectively. In addition, the Company held $206,864 and $1,404,975 of GNMA, FNMA, FHLMC or FHA mortgage-backed pass-through securities classified as available for sale at December 31, 2005 and 2004, respectively. Virtually all of these securities are rated Aaa.

A summary of gross unrealized gains and losses at December 31, 2005 and 2004 follows:

	2005		2004	
	Gains	Losses	Gains	Losses
States, municipalities and Political subdivisions	$ ---	(14,115)	---	(3,058)
United States government and Government agencies	4,563	(178,922)	48,939	(130,908)
Industrial and miscellaneous	2,227	(355,161)	4,689	(130,734)
Mortgage-backed securities	168,761	(193,968)	263,623	(160,434)
Total	175,551	(742,166)	317,251	(425,134)
Equity securities	183,504	(172,000)	270,604	(27,617)
Total	$359,055	(914,166)	587,855	(452,751)

An investment in a 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 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 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 December 31, 2005 and 2004 were as follows:

	Less than 12 months		12 months or longer		Total 2005	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Fixed maturities:						
States, municipalities and political subdivisions	$ 208,389	1,194	526,615	12,921	735,004	14,115
United States government and government agencies	6,366,036	108,957	2,525,812	69,965	8,891,848	178,922
Mortgage-backed securities	26,548,908	155,115	3,148,008	38,853	29,696,916	193,968
Industrial and miscellaneous	6,018,710	60,527	4,713,115	294,634	10,731,825	355,161
Total fixed maturities	39,142,043	325,793	10,913,550	416,373	50,055,593	742,166
Equity securities – common stocks	---	---	---	---	---	---
Equity securities – redeemable preferred	1,498,400	13,000	2,365,000	135,000	3,863,400	148,000
Equity securities – perpetual preferred	---	---	976,000	24,000	976,000	24,000
Total equity	1,498,400	13,000	3,341,000	159,000	4,839,400	172,000
Total temporarily impaired securities	$40,640,443	338,793	14,254,550	575,373	54,894,993	914,166

	Less than 12 months		12 months or longer		Total 2004	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Fixed maturities:						
States, municipalities and political subdivisions	$ ---	---	541,800	3,058	541,800	3,058
United States government and government agencies	7,548,018	86,190	6,662,714	44,718	14,210,732	130,908
Mortgage-backed securities	6,531,964	93,579	6,806,352	66,855	13,338,316	160,434
Industrial and miscellaneous	3,274,812	38,044	4,907,310	92,690	8,182,122	130,734
Total fixed maturities	17,354,794	217,813	18,918,176	207,321	36,272,970	425,134
Equity securities – common stocks:	160,661	24,337	---	---	160,661	24,337
Equity securities – redeemable preferred:	---	---	1,959,220	3,280	1,959,220	3,280
Total equity	160,661	24,337	1,959,220	3,280	2,119,881	27,617
Total temporarily impaired securities	$17,515,455	242,150	20,877,396	210,601	38,392,851	452,751

(3) Investment Income and Realized Capital Gains and Losses

A summary of net investment income for the years ended December 31, 2005 and 2004 follows:

	2005	2004
Tax-exempt interest	20,846	17,342
Taxable interest	3,545,297	2,514,095
Dividends on equity securities	760,288	750,448
Investment expenses	(44,276)	(36,493)
Net investment income	4,282,155	3,245,392

Realized capital gains (losses) for the years ended December 31, 2005 and 2004 follows:

	2005	2004
Fixed maturities	$(342,546)	6,388
Equity securities	(129,857)	54,145
Net realized capital gains (losses)	$(472,403)	60,533

Proceeds from sales of fixed maturities classified as available for sale were $19,818,227 and $4,683,640 in 2005 and 2004, respectively. Gross gains of $23,027 and $66,349 and gross losses of $365,573 and $59,961 were realized on fixed maturity sales for the years ended December 31, 2005 and 2004, respectively. Proceeds from sales of equity securities were $5,492,397 and $3,041,340 in 2005 and 2004, respectively. Gross gains of $26,829 and $61,070 were realized on the sale of equity securities for the years ended December 31, 2005 and 2004, respectively, and gross losses of $156,686 and $6,925 were realized on equity security sales for the years ended December 31, 2005 and 2004, respectively.

(4) Receivables

A summary of receivables at December 31, 2005 and 2004 follows:

	2005	2004
Insurance premiums due from agents	$200,269	524,516
Receivables under construction contracts:		
Amounts billed	797,215	1,336,354
Recoverable costs in excess of billings on uncompleted contracts	406,847	238,119
Billings in excess of costs on uncompleted contracts	(11,792)	(135,706)
Retainage, due on completion of contracts	596,104	1,014,123
Total receivables under construction contracts	1,788,374	2,452,890
Other	32,345	38,804
Total receivables	2,020,988	3,016,210
Less allowances for doubtful accounts	(302,606)	(302,606)
Total receivables, net	$1,718,382	2,713,604

The balances billed but not paid by customers pursuant to retainage provisions in construction contracts will be due upon completion of the contracts and acceptance by the owner. In management's opinion, the majority of contract retainage is expected to be collected in 2006.

Recoverable costs in excess of billings on uncompleted contracts are comprised principally of amounts of revenue recognized on contracts for which billings had not been presented to the contract owners as of the balance sheet date. These amounts will be billed in accordance with the contract terms.

(5) Property and Equipment

A summary of property and equipment at December 31, 2005 and 2004 follows:

	2005	2004
Building	$16,021,112	15,610,673
Land	800,000	800,000
Equipment and vehicles	1,475,579	1,526,472
Furniture and fixtures	856,771	859,334
	19,153,462	18,796,479
Less accumulated depreciation	8,279,128	7,850,151
	$10,874,334	10,946,328

Useful lives for depreciation purposes are five years for equipment and vehicles, fifteen years for furniture and fixtures and forty years for the building. Depreciation expense in 2005 and 2004 was $505,202 and $566,073, respectively.

Future minimum rental income to be generated by leasing a portion of the building under non-cancelable operating leases as of December 31, 2005 are estimated to be $404,304 for 2006, $404,304 for 2007, $316,104 for 2008 and $36,000 for 2009. Rental income earned in 2005 and 2004 was $426,293 and $426,408, respectively.

(6) Reserves for Losses and Loss Adjustment Expenses

The following table sets forth a reconciliation of beginning and ending reserves for unpaid losses and loss adjustment expenses for the periods indicated on a GAAP basis for the business of the Company.

	2005	2004
Balance at January 1	$23,169,971	20,848,566
Less reinsurance recoverable	3,870,088	4,376,220
Net balance at January 1	19,299,883	16,472,346
Incurred related to:		
Current year	3,807,000	6,545,000
Prior years	158,966	644,370
Total incurred	3,965,966	7,189,370
Payments related to:		
Current year	610,000	72,000
Prior years	3,449,941	4,289,833
Total payments	4,059,941	4,361,833
Net balance at December 31	19,205,908	19,299,883
Plus reinsurance recoverable	3,896,869	3,870,088
Balance at December 31	$23,102,777	23,169,971

The decrease in net loss and loss adjustment expense reserves in 2005 from 2004 was primarily due to payments on surety and general liability policies for prior years net of subrogation and ceded recoveries.

While management continually evaluates the potential for changes in loss estimates, due to the uncertainty inherent in the surety business, the emergence of net favorable development may or may not continue to occur. Management believes that the reserves for losses and loss adjustment expense are adequate to cover the unpaid portion of the ultimate net cost of losses and loss adjustment expenses, including losses incurred but not reported.

The Company has no exposure to any asbestos or environmental claims associated with general liability policies issued with the pre-1986 pollution exclusion. Policies written with the exclusion are typically associated with mass tort environmental and asbestos claims. The Company has never issued a policy with the pre-1986 pollution exclusion. The Company's exposure to asbestos and environmental liability claims is primarily limited to asbestos and environmental liability insurance for contractors and consultants involved in the remediation, removal, storage, treatment and/or disposal of environmental and asbestos hazards.

(7) Notes Payable to Banks

At December 31, 2005, the Company has a $10,000,000 bank line of credit with two financial institutions. The line of credit does not require the Company to maintain a compensating balance. There were no outstanding borrowings under this line of credit at December 31, 2005 and 2004. Under the terms of the line of credit, interest on the outstanding balance is calculated based upon the London Inter-Bank Offering Rate (LIBOR) plus 160 basis points in effect during the borrowing period. The Company pays an annual commitment fee of .25% of the unused portion of the bankline.

(8) Long-term Debt

A summary of long-term debt at December 31, 2005 and 2004 follows:

	2005	2004
Term Loan II due 2008	$ 3,000,000	4,000,000
Term Loan III due 2009	7,944,444	8,611,111
Mortgage Note due 2009	2,939,544	3,788,768
	$13,883,988	16,399,879

On November 22, 2002, the Company obtained a $10,000,000 term loan from two financial institutions, which is payable in monthly installments of $55,556 with a balloon payment of $5,388,888 due on November 22, 2009. The term loan has a balance of $7,944,444 at December 31, 2005. The interest rate for this term loan varies based on LIBOR plus 200 basis points in effect during the borrowing period. In connection with this term loan, the Company also entered into an interest rate swap that establishes a fixed interest rate for half of the loaned amount at 6.08%. The loan agreement contains certain limitations on borrowing, minimum statutory capital levels and requires maintenance of certain ratios. The Company was in compliance with these covenants at December 31, 2005. The proceeds were used to prepay the balance of the Convertible Notes due 2022.

On December 17, 2001, the Company obtained a $5,000,000 term loan from a financial institution, which is payable in quarterly installments of $250,000. The term loan, due 2009 has a balance of $3,000,000 at December 31, 2005. The interest rate varies based on LIBOR plus 190 basis points in effect during the borrowing period. The interest rate cannot exceed 5.5%. The loan agreement contains certain limitations on borrowings, minimum statutory capital levels and requires maintenance of certain ratios. The Company was in compliance with these covenants at December 31, 2005. The proceeds were used to prepay $5,005,000 of the Convertible Notes due 2022.

On December 23, 1998, the Company obtained a permanent mortgage loan from a financial institution. The $7,800,000 mortgage note, with interest fixed at 6.95% is payable in monthly installments of principal and interest over 10 years. The mortgage note, due 2009, has a balance of $2,939,544 at December 31, 2005. The loan agreements contain certain limitations on borrowings, minimum statutory capital levels and require maintenance of certain ratios. The Company was in compliance with these covenants at December 31, 2005.

Principal payments on long-term debt are $2,576,097, $2,641,354, $2,700,103 and $6,034,781 for the years 2006 through 2009, respectively. Interest expense paid in 2005 and 2004 amounted to $919,850 and $909,898, respectively.

The fair value at December 31, 2005 of the mortgage and the term loans approximate carrying value.

(9) Income Taxes

The components of income tax expense for the years ended December 31, 2005 and 2004 follows:

	2005	2004
Current Taxes:		
Federal	$2,603,932	707,918
State	85,000	85,000
	2,688,932	792,918
Deferred Taxes:		
Federal	1,709,085	278,738
State	---	---
	1,709,085	278,738
Total	$4,398,017	1,071,656

The effective income tax rate, as a percentage of earnings before income taxes for the years ended December 31, 2005 and 2004 follows:

	2005	2004
Federal statutory tax rate	34.0%	34.0%
State income tax	.4	1.4
Effect of tax-exempt interest	---	(.1)
Alternative minimum tax credit	---	(8.5)
Other, net	(.3)	(.7)
Effective income tax rate	34.1%	26.1%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2005 and 2004 are presented below:

	2005	2004
Deferred Tax Assets:		
Reserves for losses and loss adjustment expenses	$ 805,989	770,444
Unearned premiums	289,652	392,593
Allowance for doubtful accounts	102,886	102,886
State effect of temporary differences and net operating loss carryforward	434,938	713,925
Unrealized losses on investments	188,738	---
Alternative minimum tax credit carryforward	168,879	1,975,767
Total gross deferred tax assets	1,991,082	3,955,615
Less valuation allowance	(623,676)	(713,925)
Net deferred tax assets	$1,367,406	3,241,690
Deferred Tax Liabilities:		
Plant and equipment	$ 518,412	491,516
Deferred policy acquisition costs	414,531	560,897
Unrealized gains on investments	---	45,935
Other	63,872	109,304
Total gross deferred tax liabilities	996,519	1,207,652
Net deferred tax assets	$ 370,888	2,034,038

The alternative minimum tax credit carryforward as of December 31, 2005 is $168,879 and has an indefinite life. In assessing the realization of deferred tax assets, management considers whether it is more likely than not that the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, tax planning strategies and anticipated future taxable income in making this assessment and believes it is more likely than not the Company will realize the benefits of its deductible temporary differences, net of the valuation allowance, at December 31, 2005 and 2004.

The most significant component of the state gross deferred asset is the net operating loss carryforward for the State of Connecticut which amounted to $8,476,307 as of December 31, 2005. Of this amount, $8,476,307 expires in 2021 through 2025. In 2005 and 2004, a valuation allowance is provided to offset the deferred tax asset related to the state deferred tax assets as management believes that these deferred tax assets are unrealizable. The change in the valuation allowance is due to the expiration of the State of Connecticut net operating loss carryforwards offset in part by the current tax loss generated by the Connecticut domiciled companies.

Taxes paid in 2005 and 2004 were $2,479,557 and $226,682, respectively.

(10) Pension and Profit Sharing Plans

The Company maintains ACMAT 401(k) plan for the benefit of non-union employees. The Company contributed $75,000 to the ACMAT 401(k) Plan in 2005 and 2004. Costs associated with operating the Plan are borne by the Company and were insignificant for each of the years ended December 31, 2005 and 2004.

The Company participated in various multi-employer defined contribution plans for its union employees. Upon withdrawal from these plans, the Company may be liable for its share of the unfunded vested liabilities of the plans. Such obligations, if any, of the Company are not determinable at December 31, 2005.

(11) Derivative Financial Instruments

The Company uses interest rate swaps as a means of hedging exposure to interest rate risk on its long-term debt. To qualify as a hedge, the hedge relationship must be designated and documented at inception and be highly effective in accomplishing the objective of offsetting the changes in cash flows for the risk being hedged. To the extent these derivatives are effective in offsetting the variability of the hedged cash flows, changes in the derivatives' fair value are not to be included in current earnings but are reported in accumulated other comprehensive income ("AOCI"). For the years ended December 31, 2005 and 2004, the amounts included in AOCI for these changes were losses of $121,745 in 2005 and gains of $62,884 in 2004 and would be included in the earnings of future periods when those earnings are also affected by the variability of the hedged cash flows.

During the year ending December 31, 2006, the amount of losses the Company expects to reclassify from AOCI into interest expense for its cash flow hedges is not significant. To the extent these hedges are not effective, changes in their fair value would be immediately included in earnings.

(12) Stockholders' Equity

The Company has two classes of common stock; the Common Stock and the Class A Stock, each without par value. The rights of the Common Stock and the Class A Stock are identical, except with respect to voting rights. Holders of the Class A Stock are entitled to one-tenth vote per share in relation to the Common Stock, holders of which are entitled to one vote per share.

During 2005 and 2004, ACMAT repurchased and retired, in the open market and in privately negotiated transactions, 29,744 and 59,026, respectively, shares of its Common Stock at an average price of $15.99 and $14.07 per share, respectively. The Company also repurchased and retired during 2005 and 2004, in the open market and in privately negotiated transactions, 46,129 and 108,227, respectively, shares of its Class A Stock at an average price of $13.29 and $13.04 per share, respectively.

The Board of Directors has periodically approved the grant of non-qualified stock options to certain officers and directors giving such individuals the right to purchase restricted shares of the Company's Common Stock and Class A Stock. Transactions regarding these stock options are summarized below:

	2005	2004
Options outstanding at December 31	408,000	324,500
Weighted average price per share of options outstanding	$10.41	$9.58
Expiration dates	7/06-6/15	7/06-3/14
Options exercisable at December 31	242,135	184,900
Options granted	91,000	94,000
Options exercised or surrendered	7,500	154,000
Price ranges of options exercised or surrendered	$9.00	$7.25-$10.75

The exercise price of each option equals the market price of the Company's stock on the date of grant and the option's term is ten years. On June 23, 2005 the Board of Directors granted 91,000 options to certain directors and officers which generally vest over a five-year period for employees. On March 15, 2004, the Board of Directors granted 94,000 options to certain directors and officers which generally vest over a five-year period for employees.

During 2005, officers and directors exercised 7,500 stock options. The exercise of these options resulted in a tax benefit of approximately $10,000 recorded in equity as additional proceeds received for stock issuance. During 2004, officers and directors exercised 154,000 stock options. The exercise of these options resulted in a tax benefit of approximately $149,000 recorded in equity as additional proceeds received for stock issuance.

Under applicable insurance regulations, ACMAT's insurance subsidiary is restricted as to the amount of dividends they may pay, without the prior approval of any insurance department and are limited to approximately $5,186,000 in 2006.

The Company's insurance subsidiary ACSTAR, is domiciled in Illinois. The statutory financial statements of ACSTAR are prepared in accordance with accounting practices prescribed by the Illinois Department of Insurance. Prescribed statutory accounting practices include a variety of publications of the National Association of Insurance Commissioners (NAIC), as well as the state laws, regulations, and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not so prescribed of which the Company has none.

In accordance with statutory accounting practices, ACMAT's insurance subsidiaries' statutory capital and surplus was $30,280,936 and $49,025,721 at December 31, 2005 and 2004, respectively, and their statutory net income for the years ended December 31, 2005 and 2004 was $5,186,375 and $3,788,532, respectively. The primary differences between amounts reported in accordance with GAAP and amounts reported in accordance with statutory accounting practices are carrying value of fixed maturity investments; deferred taxes; assets not admitted for statutory purposes such as agents balances over 90 days, furniture and fixtures and certain notes receivable; and deferred acquisition costs recognized for GAAP only.

(13) 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 years ended December 31, 2005 and 2004:

	Earnings	Average Shares Outstanding	Per-Share Amount
2005:			
Basic EPS:			
Earnings available to stockholders	$8,483,722	2,249,655	$3.77
Effect of Dilutive Securities:			
Stock options	---	67,715	
Diluted EPS:			
Earnings available to stockholders	$8,483,722	2,317,370	$3 66
2004:			
Basic EPS:			
Earnings available to stockholders	$3,026,078	2,308,209	$1.31
Effect of Dilutive Securities:			
Stock options	---	54,240	
Diluted EPS:			
Earnings available to stockholders	$3,026,078	2,362,449	$1.28

(14) Stock Option Fair Value Information

The fair value effect of stock options reported in Note 1, Stock-Based Compensation, is derived by application of a variation of the Black-Scholes option pricing model.

The significant assumptions used during the year in estimating the fair value on the date of the grant for original options granted in 2005 and 2004 were as follows:

	2005	2004
Expected life of stock options, in years	6	9
Expected volatility of ACMAT stock	30.0	44.0
Risk-free interest rate	4.0	4.0
Expected annual dividend yield	---	---
Expected annual forfeiture rate	---	---

(15) Commitments and Contingencies

The Company is a party to legal actions arising in the ordinary course of its business. In management's opinion, the Company has adequate legal defenses respecting those actions where the Company is a defendant, has appropriate insurance reserves recorded, and does not believe that their settlement will materially affect the Company's operations or financial position.

Many construction projects in which the Company has been engaged have included asbestos exposures which the Company believes to involve a particularly high degree of risk because of the hazardous nature of asbestos. The Company believes it has reduced the risks associated with asbestos through proper training of its employees and by maintaining general liability and workers' compensation insurance. From 1986 to 1996, the Company obtained its general liability insurance from its insurance subsidiaries. Since 1996, the Company obtained its general liability insurance from unaffiliated insurance companies. Since 1989, the Company has obtained its surety bonds from its insurance subsidiary.

The Company has, together with many other defendants, been named as a defendant in actions by injured or deceased individuals or their representatives based on product liability claims relating to materials containing asbestos. No specific claims for monetary damages are asserted in these actions. Although it is early in the litigation process, the Company does not believe that its exposure in connection with these cases is significant.

(16) 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.

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.

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 United Coastal Liability Insurance operating segment offered specific lines of liability insurance as an approved non-admitted excess and surplus lines insurer in forty-seven 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, asbestos, lead, pollution and professional liability insurance nationwide 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.

ACMAT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 is summarized as follows:

	2005	2004
Revenues:		
ACSTAR Bonding	$12,280,831	10,225,129
United Coastal Liability Insurance	3,968,019	8,464,508
ACMAT Contracting	8,931,291	14,631,424
	$25,180,141	33,321,061
Operating Earnings (Loss):		
ACSTAR Bonding	$6,390,789	3,446,058
United Coastal Liability Insurance	429,321	1,638,452
ACMAT Contracting	(355,271)	(79,878)
	$6,464,839	5,004,632
Depreciation and Amortization:		
ACSTAR Bonding	$104,102	179,139
United Coastal Liability Insurance	---	65,897
ACMAT Contracting	439,140	458,121
	$543,242	703,157
Identifiable Assets:		
ACSTAR Bonding	$101,794,119	82,490,014
United Coastal Liability Insurance	---	39,072,544
ACMAT Contracting	33,884,167	18,221,124
	$135,678,286	139,783,682
Capital Expenditures:		
ACSTAR Bonding	$12,370	11,316
United Coastal Liability Insurance	---	717
ACMAT Contracting	420,136	305,005
	$433,136	317,038

The components of revenue for each segment are as follows:

	2005	2004
ACSTAR Bonding:		
Premiums	$9,842,356	8,656,744
Investment income, net	2,626,180	1,673,086
Capital gains (losses)	(14,809)	52,239
Other income (expense)	(172,896)	(156,940)
	$12,280,831	10,225,129
United Coastal Liability Insurance:		
Premiums	$3,137,666	7,084,693
Investment income, net	1,260,364	1,316,744
Capital gains (losses)	(457,594)	8,294
Other income	27,583	54,777
	$3,968,019	8,464,508
ACMAT Contracting:		
Contract revenues	$5,527,900	10,993,886
Investment income, net	93,806	14,828
Inter-segment revenue:		
Rental income	752,425	787,675
Underwriting services and agency commissions	2,130,607	2,391,977
Other income	426,553	443,058
	$8,931,291	14,631,424

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

	2005	2004
Revenue:		
Total revenue for reportable segments	$25,180,141	33,321,061
Inter-segment eliminations	(1,977,109)	(2,485,530)
Sale of subsidiary	7,336,667	---
	$30,539,699	30,835,531
Operating Earnings:		
Total operating earnings for reportable segments	$6,464,839	5,004,632
Interest expense	(919,767)	(906,898)
Sale of subsidiary	7,336,667	---
	$12,881,739	4,097,734

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 selling, general and administrative expenses. 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.