

ACMAT CORPORATION AND SUBSIDIARIES
JUNE 30, 2006

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ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets

<u>Assets</u>	June 30, <u>2006</u> (Unaudited)	December 31, <u>2005</u>
Investments:		
Fixed maturities-available for sale at fair value (Cost of \$75,944,363 2006 and \$80,003,030 in 2005)	\$74,691,450	79,436,415
Equity securities, at fair value (Cost of \$11,699,462 in 2006 and \$10,074,759 in 2005)	11,270,544	10,086,263
Short-term investments, at cost which approximates fair value	<u>1,778,824</u>	<u>9,281,841</u>
Total investments	87,740,818	98,804,519
Cash and cash equivalents	20,438,555	14,729,289
Accrued interest receivable	453,719	514,629
Receivables, net of allowance for doubtful accounts of \$302,606 in 2006 and 2005	949,330	1,718,382
Reinsurance recoverable:		
Unpaid losses	4,169,560	3,896,869
Paid losses	164,118	164,118
Prepaid expenses	156,301	171,559
Deferred income taxes	188,253	370,888
Property & equipment, net	10,812,569	10,874,334
Deferred policy acquisition costs	1,443,095	1,219,209
Other assets	1,321,847	1,294,130
Intangibles	<u>1,920,360</u>	<u>1,920,360</u>
	<u>129,758,525</u>	<u>135,678,286</u>
<u>Liabilities & Stockholders' Equity</u>		
Accounts payable	1,771,228	2,861,329
Reserves for losses and loss adjustment expenses	24,344,000	23,102,777
Unearned premiums	5,827,902	4,998,721
Collateral held	35,195,647	36,508,599
Income tax payable	388,524	282,595
Accrued liabilities	2,782,297	3,051,273
Long-term debt	<u>12,586,869</u>	<u>13,883,988</u>
Total liabilities	82,896,467	84,689,282
Stockholders' Equity:		
Common Stock (No par value; 3,500,000 shares authorized; 508,935 and 510,585 shares issued and outstanding)	508,935	510,585
Class A Stock (No par value; 10,000,000 shares authorized; 1,456,903 and 1,699,848 shares issued and outstanding)	1,456,903	1,699,848
Retained earnings	46,401,648	49,220,834
Accumulated other comprehensive (loss)	<u>(1,505,428)</u>	<u>(442,263)</u>
Total stockholders' equity	<u>46,862,058</u>	<u>50,989,004</u>
	<u>\$129,758,525</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		Six months ended	
	June 30		June 30	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Contract revenues	\$1,559,597	654,509	3,273,358	2,060,495
Earned premiums	3,160,353	3,071,118	5,859,158	6,512,855
Investment income, net	1,291,786	913,607	2,519,572	1,865,138
Net realized capital gains (losses)	(27,278)	929	(26,391)	(7,777)
Other income	<u>326,823</u>	<u>317,321</u>	<u>406,983</u>	<u>479,970</u>
	<u>6,311,281</u>	<u>4,957,484</u>	<u>12,032,680</u>	<u>10,910,681</u>
Cost of contract revenues	1,789,036	728,945	3,442,167	1,997,712
Losses and loss adjustment expenses	753,488	964,671	1,468,014	2,240,799
Amortization of policy acquisition costs	502,835	628,532	1,111,523	1,368,095
General and administrative expenses	1,218,945	1,152,267	2,416,108	2,408,690
Interest expense	<u>231,019</u>	<u>233,834</u>	<u>446,025</u>	<u>466,491</u>
	<u>4,495,323</u>	<u>3,708,249</u>	<u>8,883,837</u>	<u>8,481,787</u>
Earnings before income taxes	1,815,958	1,249,235	3,148,843	2,428,894
Income taxes	<u>618,441</u>	<u>425,773</u>	<u>1,070,353</u>	<u>833,376</u>
Net earnings	<u>\$1,197,517</u>	<u>823,462</u>	<u>2,078,490</u>	<u>1,595,518</u>
Basic earnings per share	\$.56	.37	.95	.71
Diluted earnings per share	\$.53	.36	.91	.69

See Notes to Unaudited Consolidated Financial Statements.

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity (Unaudited)
June 30, 2006 and 2005

	Common Stock Par <u>Value</u>	Class A Stock Par <u>Value</u>	Retained <u>Earnings</u>	Accumulated Other Comprehensive <u>Income(Loss)</u>	Total Stockholders' <u>Equity</u>
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	--	--	--	(387,614)	(387,614)
Net unrealized losses on derivatives qualifying as cash flow hedges	--	--	--	(30,066)	(30,066)
Net earnings	--	--	1,595,518	--	<u>1,595,518</u>
Total comprehensive income					1,177,838
Acquisition and retirement of 994 shares of Common Stock	(994)	--	(8,599)	--	(9,593)
Acquisition and retirement of 29,014 shares of Class A Stock	<u>--</u>	<u>(29,014)</u>	<u>(345,807)</u>	<u>--</u>	<u>(374,821)</u>
Balance as of June 30, 2005	<u>\$539,335</u>	<u>1,709,464</u>	<u>42,918,012</u>	<u>(309,678)</u>	<u>44,857,133</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	--	--	--	(1,126,728)	(1,126,728)
Net unrealized gains on derivatives qualifying as cash flow hedges	--	--	--	63,563	63,563
Net earnings	--	--	2,078,490	--	<u>2,078,490</u>
Total comprehensive income					1,015,325
Stock based compensation	--	--	114,146	--	114,146
Acquisition and retirement of 1,650 shares of Common Stock	(1,650)	-	(32,450)	--	(34,100)
Acquisition and retirement of 242,945 shares of Class A Stock	<u>--</u>	<u>(242,945)</u>	<u>(4,979,372)</u>	<u>--</u>	<u>(5,222,317)</u>
Balance as of June 30, 2006	<u>508,935</u>	<u>1,456,903</u>	<u>46,401,648</u>	<u>(1,505,428)</u>	<u>46,862,058</u>

See Notes to Unaudited Consolidated Financial Statements.

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

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Net earnings	\$2,078,490	1,595,518
Adjustments to reconcile net earnings to net cash used for operating activities:		
Stock based compensation	114,146	--
Depreciation and amortization	235,652	292,423
Net realized capital losses	26,391	7,777
Changes in:		
Accrued interest receivable	60,910	54,936
Reinsurance recoverable	(272,691)	907,060
Receivables, net	769,052	1,588,797
Deferred policy acquisition costs	(223,886)	333,138
Prepaid expenses and other assets	(12,459)	3,502,960
Accounts payable and other accrued liabilities	(1,295,514)	(1,644,151)
Reserves for losses and loss adjustment expenses	1,241,223	(1,426,447)
Collateral held	(1,312,952)	525,763
Income taxes, net	288,564	282,949
Unearned premiums	<u>829,181</u>	<u>(1,317,138)</u>
Net cash provided by operating activities	<u>2,526,107</u>	<u>4,703,585</u>
Cash flows from investing activities:		
Proceeds from investments sold or matured:		
Fixed maturities-sold	3,446,352	---
Fixed maturities-matured	9,060,453	4,987,392
Equity securities	--	463,429
Purchases of:		
Fixed maturities	(8,409,419)	(16,649,241)
Equity securities	(1,700,000)	(1,500,000)
Short-term investments, net	7,503,017	(7,444,083)
Capital expenditures	<u>(163,708)</u>	<u>(77,033)</u>
Net cash provided by (used for) investing activities	<u>9,736,695</u>	<u>(20,219,536)</u>
Cash flows from financing activities:		
Repayments on long-term debt	(1,297,119)	(1,251,474)
Payments for acquisition & retirement of stock	<u>(5,256,417)</u>	<u>(384,414)</u>
Net cash used for financing activities	<u>(6,553,536)</u>	<u>(1,635,888)</u>
Net change in cash	5,709,266	(17,151,839)
Cash at beginning of period	<u>14,729,289</u>	<u>28,774,539</u>
Cash at end of period	<u>\$20,438,555</u>	<u>11,622,700</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 June 30, 2006 and 2005:

<u>2006:</u>	<u>Earnings</u>	<u>Weighted Average Shares Outstanding</u>	<u>Per-Share Amount</u>
Basic EPS:			
Earnings available to stockholders	\$1,197,517	2,156,760	\$.56
Effect of Dilutive Securities:			
Stock options	<u> --</u>	<u>115,052</u>	
Diluted EPS:			
Earnings available to stockholders	<u>\$1,197,517</u>	<u>2,271,812</u>	<u>\$.53</u>
<u>2005:</u>			
Basic EPS:			
Earnings available to stockholders	\$823,462	2,253,437	\$.37
Effect of Dilutive Securities:			
Stock options	<u> --</u>	<u>60,817</u>	
Diluted EPS:			
Earnings available to stockholders	<u>\$823,462</u>	<u>2,314,254</u>	<u>\$.36</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, 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	\$2,078,490	2,182,529	\$.95
Effect of Dilutive Securities:			
Stock options	<u> --</u>	<u> 108,452</u>	
Diluted EPS:			
Earnings available to stockholders	<u>\$2,078,490</u>	<u>2,290,981</u>	<u>\$.91</u>
<u>2005:</u>			
Basic EPS:			
Earnings available to stockholders	\$1,595,518	2,260,422	\$.71
Effect of Dilutive Securities:			
Stock options	<u> --</u>	<u> 56,136</u>	
Diluted EPS:			
Earnings available to stockholders	<u>\$1,595,518</u>	<u>2,316,558</u>	<u>\$.69</u>

(3) Supplemental Cash Flow Information

Income taxes paid during the six months ended June 30, 2006 and 2005 was \$781,789 and \$550,427 respectively. Interest paid for the six months ended June 30, 2006 and 2005 was \$443,377 and \$461,955, respectively.

(4) 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, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Unrealized losses on investments:		
Unrealized holding losses arising during period	\$(1,100,337)	(395,391)
Less reclassification adjustment for losses included in net income	(26,391)	(7,777)
Unrealized gain (loss) on derivatives qualifying as cash flow hedges	<u>63,563</u>	<u>(30,066)</u>
Other comprehensive income (loss)	<u>\$(1,063,165)</u>	<u>(417,680)</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 \$114,146 is reflected in compensation expense for the six months ended June 30, 2006. Compensation expense of \$57,073 is reflected in compensation expense for the three months ended June 30, 2006. The Company applied the recognition and measurement principles of SFAS 123R, Share Based Payment beginning January 1, 2006.

As of June 30, 2006 there were 410,000 stock options outstanding of which 135,135 were not yet vested. The compensation costs related to non-vested share compensation arrangements granted but not yet recognized was approximately \$350,000 as of June 30, 2006. The Company expects to recognize that cost over a weighted average period of 3.9 years.

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

	<u>Three Months Ended</u>	<u>Six Months Ended</u>
Net earnings as reported	\$823,462	\$1,595,518
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>(28,327)</u>	<u>(56,653)</u>
Net earnings, pro forma	<u>\$795,135</u>	<u>1,538,865</u>
 Earnings per share		
Basic and diluted – as reported	\$.37/.35	\$.71/.68
Basic and diluted – pro forma	\$.36/.34	\$.69/.66

The significant assumptions used during the year in estimating the fair value on the date of the grant for options and granted in 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	--

(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 June 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>
2006:						
Fixed maturities:						
States, municipalities and political subdivisions	--	--	713,968	32,450	713,968	32,450
United States government and government agencies	\$ 727,124	13,125	8,140,025	203,871	8,867,149	216,996
Mortgage-backed securities	38,391,186	573,698	3,835,557	134,865	42,226,743	708,563
Industrial and miscellaneous	<u>1,420,206</u>	<u>7,230</u>	<u>9,150,257</u>	<u>313,449</u>	<u>10,570,463</u>	<u>320,679</u>
Total fixed maturities	40,538,516	594,053	21,839,807	684,635	62,378,323	1,278,688
Equity securities – redeemable preferred	2,889,780	172,100	3,708,800	291,200	6,598,580	463,300
Equity securities – redeemable perpetual	<u>2,403,600</u>	<u>79,200</u>	<u>905,600</u>	<u>94,400</u>	<u>3,309,200</u>	<u>173,600</u>
Total equity	<u>5,293,380</u>	<u>251,300</u>	<u>4,614,400</u>	<u>385,600</u>	<u>9,907,780</u>	<u>636,900</u>
Total temporarily impaired securities	<u>\$45,831,896</u>	<u>845,353</u>	<u>26,454,207</u>	<u>1,070,235</u>	<u>72,286,103</u>	<u>1,915,588</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>
2005:						
Fixed maturities:						
States, municipalities and political subdivisions	\$ ---	---	540,020	2,198	540,020	2,198
United States government and government agencies	9,117,423	78,689	6,584,756	61,027	15,702,179	139,716
Mortgage-backed securities	8,709,017	113,806	5,745,880	75,508	14,454,897	189,314
Industrial and miscellaneous	<u>5,468,350</u>	<u>43,329</u>	<u>5,560,074</u>	<u>239,926</u>	<u>11,028,424</u>	<u>283,255</u>
Total fixed maturities	23,294,790	235,824	18,430,730	378,659	41,725,520	614,483
Equity securities – common stocks:	---	---	171,323	13,677	159,188	25,812
Equity securities – redeemable preferred:	992,800	7,200	846,000	154,000	4,735,850	226,650
Equity securities – perpetual preferred:	<u>498,400</u>	<u>1,600</u>	<u>1,590,400</u>	<u>9,600</u>	<u>2,549,520</u>	<u>50,480</u>
Total equity	1,491,200	8,800	2,607,723	177,277	7,444,558	302,942
Total temporarily impaired securities	<u>\$24,785,990</u>	<u>244,624</u>	<u>21,038,453</u>	<u>555,936</u>	<u>49,170,078</u>	<u>917,425</u>

Management has determined that the above unrealized losses were temporary.

(7) Segment Reporting

The Company had three reportable operating segments: ACMAT Contracting, ACSTAR Bonding and United Coastal Liability Insurance. 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.

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 six-month periods ended June 30, 2006 and 2005 is summarized as follows:

	<u>Three Months ended</u>		<u>Six Months ended</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenues:				
ACSTAR Bonding	\$4,153,506	2,682,814	7,795,867	5,136,902
United Coastal Liability Insurance	--	1,221,651	--	3,042,993
ACMAT Contracting	<u>2,705,379</u>	<u>1,534,293</u>	<u>5,116,644</u>	<u>3,745,030</u>
	<u>\$6,858,885</u>	<u>5,438,758</u>	<u>12,912,511</u>	<u>11,924,925</u>
Operating Earnings (Loss):				
ACSTAR Bonding	\$2,176,348	1,349,813	3,963,029	2,506,598
United Coastal Liability Insurance	--	246,629	--	541,623
ACMAT Contracting	<u>(129,371)</u>	<u>(113,373)</u>	<u>(368,161)</u>	<u>(152,836)</u>
	<u>\$2,046,977</u>	<u>1,483,069</u>	<u>3,594,868</u>	<u>2,895,385</u>
Depreciation and Amortization:				
ACSTAR Bonding	\$12,411	35,656	17,020	57,179
United Coastal Liability Insurance	--	4,651	--	9,590
ACMAT Contracting	<u>125,197</u>	<u>111,528</u>	<u>252,672</u>	<u>225,654</u>
	<u>\$112,786</u>	<u>151,835</u>	<u>235,652</u>	<u>292,423</u>
Identifiable Assets:	<u>June 30, 2006</u>		<u>December 31, 2005</u>	
ACSTAR Bonding	\$103,530,592		101,794,119	
ACMAT Contracting	<u>26,237,933</u>		<u>33,884,167</u>	
	<u>\$129,758,525</u>		<u>135,678,286</u>	

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

	<u>Three Months ended</u>		<u>Six Months ended</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
ACSTAR Bonding:				
Premiums	\$3,160,353	2,195,002	5,859,158	4,167,285
Investment income, net	1,011,936	488,553	1,953,789	1,027,188
Capital gains (losses)	(781)	--	106	(8,706)
Other	<u>(18,002)</u>	<u>(741)</u>	<u>(17,186)</u>	<u>(48,865)</u>
	<u>\$4,153,506</u>	<u>2,682,814</u>	<u>7,795,867</u>	<u>5,136,902</u>
United Coastal Liability Insurance:				
Premiums	\$ --	876,116	--	2,345,570
Investment income, net	--	342,425	--	684,630
Capital gains	--	929	--	929
Other	<u>--</u>	<u>2,181</u>	<u>--</u>	<u>11,864</u>
	<u>\$ --</u>	<u>1,221,651</u>	<u>--</u>	<u>3,042,993</u>
ACMAT Contracting:				
Contract revenues	\$1,559,597	654,509	3,273,358	2,060,495
Investment income, net	205,314	3,906	408,742	13,487
Intersegment revenue:				
Rental income	79,150	158,451	158,299	401,001
Underwriting services, agency commissions and funds administration services	769,123	567,789	1,104,706	1,021,723
Capital gains (losses)	(26,497)	--	(26,497)	--
Other	<u>118,692</u>	<u>149,638</u>	<u>198,036</u>	<u>248,324</u>
	<u>\$2,705,379</u>	<u>1,534,293</u>	<u>5,116,644</u>	<u>3,745,030</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>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenue:				
Total revenue for reportable segments	\$6,858,885	5,438,758	12,912,511	11,924,925
Intersegment eliminations	<u>(547,604)</u>	<u>(481,274)</u>	<u>(879,831)</u>	<u>(1,014,244)</u>
	<u>\$6,311,281</u>	<u>4,957,484</u>	<u>12,032,680</u>	<u>10,910,681</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.

Operating Earnings:				
Total operating earnings for reportable segments	\$2,046,977	1,483,069	3,594,868	2,895,385
Interest expense	<u>(231,019)</u>	<u>(233,834)</u>	<u>(446,025)</u>	<u>(466,491)</u>
	<u>\$1,815,958</u>	<u>1,249,235</u>	<u>3,148,843</u>	<u>2,428,894</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.