

ACMAT CORPORATION AND SUBSIDIARIES
JUNE 30, 2007

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ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets

<u>Assets</u>	June 30, <u>2007</u> (Unaudited)	December 31, <u>2006</u>
Investments:		
Fixed maturities-available for sale at fair value (Cost of \$57,846,541 2007 and \$56,591,385 in 2006)	\$57,161,993	56,300,695
Equity securities, at fair value (Cost of \$15,600,562 in 2007 and \$14,763,359 in 2006)	15,435,631	15,140,013
Short-term investments, at cost which approximates fair value	<u>13,448,541</u>	<u>29,972,891</u>
Total investments	86,046,165	101,413,599
Cash and cash equivalents	15,706,799	7,584,783
Accrued interest receivable	272,849	270,410
Receivables, net of allowance for doubtful accounts of \$101,231 in 2007 and 2006	1,315,872	892,046
Reinsurance recoverable:		
Unpaid losses	3,096,034	2,954,488
Paid losses	233,586	43,392
Prepaid expenses	157,638	203,487
Deferred income taxes	10,466,014	10,672,517
Property & equipment, net	999,791	1,201,221
Deferred policy acquisition costs	814,333	1,837,031
Other assets	<u>1,920,360</u>	<u>1,920,360</u>
Intangibles	<u>\$121,029,441</u>	<u>128,993,334</u>
 <u>Liabilities & Stockholders' Equity</u>		
Accounts payable	\$ 1,584,422	1,538,035
Reserves for losses and loss adjustment expenses	22,195,768	22,080,301
Unearned premiums	3,653,930	4,636,637
Collateral held	31,489,383	36,547,528
Income tax payable	69,090	299,762
Deferred income taxes	55,016	24,677
Accrued liabilities	2,892,887	2,573,272
Long-term debt	<u>9,992,362</u>	<u>11,306,288</u>
Total liabilities	71,932,858	79,006,500
 Stockholders' Equity:		
Common Stock (No par value; 3,500,000 shares authorized; 479,310 and 481,585 shares issued and outstanding)	479,310	481,585
Class A Stock (No par value; 10,000,000 shares authorized; 1,353,356 and 1,422,273 shares issued and outstanding)	1,353,356	1,422,273
Retained earnings	48,089,309	47,913,873
Accumulated other comprehensive (loss)	<u>(825,392)</u>	<u>169,103</u>
Total stockholders' equity	<u>49,096,583</u>	<u>49,986,834</u>
	<u>\$121,029,441</u>	<u>\$128,993,334</u>

See Notes to Unaudited Consolidated Financial Statements.

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Earnings (Unaudited)

	Three months ended June 30		Six months ended June 30	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Contract revenues	\$1,274,893	1,559,597	2,369,760	3,273,358
Earned premiums	2,452,315	3,160,353	5,374,840	5,859,158
Investment income, net	1,384,188	1,291,786	2,718,727	2,519,572
Net realized capital gains (losses)	(2,668)	(27,278)	(16,720)	(26,391)
Other income	<u>272,966</u>	<u>326,823</u>	<u>454,575</u>	<u>406,983</u>
	<u>5,381,694</u>	<u>6,311,281</u>	<u>10,901,182</u>	<u>12,032,680</u>
Cost of contract revenues	1,255,948	1,789,036	2,339,640	3,442,167
Losses and loss adjustment expenses	490,463	753,488	1,074,968	1,468,014
Amortization of policy acquisition costs	583,321	502,835	1,331,701	1,111,523
General and administrative expenses	1,214,324	1,218,945	2,486,947	2,416,108
Interest expense	<u>187,940</u>	<u>231,019</u>	<u>384,211</u>	<u>446,025</u>
	<u>3,731,996</u>	<u>4,495,323</u>	<u>7,617,467</u>	<u>8,883,837</u>
Earnings before income taxes	1,649,698	1,815,958	3,283,715	3,148,843
Income taxes	<u>548,493</u>	<u>618,441</u>	<u>1,109,674</u>	<u>1,070,353</u>
Net earnings	<u>\$1,101,205</u>	<u>1,197,517</u>	<u>2,174,041</u>	<u>2,078,490</u>
Basic earnings per share	\$.58	.56	1.15	.95
Diluted earnings per share	\$.54	.53	1.07	.91

See Notes to Unaudited Consolidated Financial Statements.

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity (Unaudited)
June 30, 2007 and 2006

	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, 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>
Balance as of December 31, 2006	\$481,585	1,422,273	47,913,873	169,103	49,986,834
Comprehensive income:					
Net unrealized losses on debt and equity securities, net of reclassification	--	--	--	(996,592)	(996,592)
Net unrealized losses on derivatives qualifying as cash flow hedges	--	--	--	2,097	2,097
Net earnings	--	--	2,174,041	--	<u>2,174,041</u>
Total comprehensive income					1,179,539
Stock based compensation	--	--	70,488	--	70,488
Acquisition and retirement of 2,275 shares of Common Stock	(2,275)	--	(52,493)	--	(54,768)
Acquisition and retirement of 85,917 shares of Class A Stock	--	(85,917)	(2,157,640)	--	(2,243,557)
Issuance of 17,000 shares of Class A Stock pursuant to stock options	<u> --</u>	<u>17,000</u>	<u>141,040</u>	<u> --</u>	<u>158,040</u>
Balance as of June 30, 2007	<u>\$479,310</u>	<u>1,353,356</u>	<u>48,089,309</u>	<u>(825,392)</u>	<u>49,096,583</u>

See Notes to Unaudited Consolidated Financial Statements.

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Unaudited)
Six Months Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Net earnings	\$2,174,041	2,078,490
Adjustments to reconcile net earnings to net cash used for operating activities:		
Stock based compensation	70,488	114,146
Depreciation and amortization	121,868	235,652
Net realized capital losses	16,720	26,391
Changes in:		
Accrued interest receivable	(2,439)	60,910
Reinsurance recoverable	(331,740)	(272,691)
Receivables, net	(423,826)	769,052
Deferred policy acquisition costs	201,430	(223,886)
Prepaid expenses and other assets	1,068,550	(12,459)
Accounts payable and other accrued liabilities	368,099	(1,295,514)
Reserves for losses and loss adjustment expenses	115,467	1,241,223
Collateral held	(5,058,145)	(1,312,952)
Income taxes, net	(186,200)	288,564
Unearned premiums	<u>(982,707)</u>	<u>829,181</u>
Net cash provided by (used for) operating activities	<u>(2,848,394)</u>	<u>2,526,107</u>
Cash flows from investing activities:		
Proceeds from investments sold or matured:		
Fixed maturities-sold	5,085,286	3,446,352
Fixed maturities-matured	710,000	9,060,453
Equity securities	1,334,832	--
Purchases of:		
Fixed maturities	(6,971,574)	(8,409,419)
Equity securities	(2,250,000)	(1,700,000)
Short-term investments, net	16,524,350	7,503,017
Capital expenditures	<u>(8,273)</u>	<u>(163,708)</u>
Net cash provided by investing activities	<u>14,424,621</u>	<u>9,736,695</u>
Cash flows from financing activities:		
Repayments on long-term debt	(1,313,926)	(1,297,119)
Payments for acquisition & retirement of stock	(2,298,325)	(5,256,417)
Issuance of Class A Stock	<u>158,040</u>	<u>--</u>
Net cash used for financing activities	<u>(3,454,211)</u>	<u>(6,553,536)</u>
Net change in cash	8,122,016	5,709,266
Cash at beginning of period	<u>7,584,783</u>	<u>14,729,289</u>
Cash at end of period	<u>\$15,706,799</u>	<u>20,438,555</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, 2006.

(2) Adoption of New Accounting Standards

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

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

Accounting for Uncertainty in Income Taxes

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

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

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

The adoption of FIN 48 at January 1, 2007 did not have a material effect on the Company's results of operations, financial condition or liquidity.

(3) Accounting Standards Not Yet Adopted

Fair Value Measurements

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

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

FAS 157 is effective for fiscal years beginning after November 15, 2007. The Company does not expect the provisions of FAS 157 to have a material effect on its results of operations, financial condition or liquidity.

Fair Value Option for Financial Assets and Financial Liabilities

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

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

Collateral Assignment Split-Dollar Life Insurance Arrangements

In March 2007, the FASB issued Emerging Issues Task Force Issue No. 06-10, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements* (EITF 06-10). EITF 06-10 provides guidance on the recognition and measurement of assets related to collateral assignment split-dollar life insurance arrangements. EITF 06-10 is effective for fiscal years beginning after December 15, 2007. The Company does not expect the provisions of EITF 06-10 to have a material effect on its results of operations, financial condition or liquidity.

(4) 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, 2007 and 2006:

	<u>Earnings</u>	<u>Weighted Average Shares Outstanding</u>	<u>Per-Share Amount</u>
<u>2007:</u>			
Basic EPS:			
Earnings available to stockholders	\$1,101,205	1,882,967	\$.58
Effect of Dilutive Securities:			
Stock options	<u> --</u>	<u> 141,986</u>	
Diluted EPS:			
Earnings available to stockholders	<u>\$1,101,205</u>	<u>2,024,953</u>	<u>\$.54</u>
<u>2006:</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>

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, 2007 and 2006:

	<u>Earnings</u>	<u>Weighted Average Shares Outstanding</u>	<u>Per-Share Amount</u>
<u>2007:</u>			
Basic EPS:			
Earnings available to stockholders	\$2,174,041	1,890,965	\$1.15
Effect of Dilutive Securities:			
Stock options	<u> --</u>	<u> 137,808</u>	
Diluted EPS:			
Earnings available to stockholders	<u>\$2,174,041</u>	<u>2,028,773</u>	<u>\$1.07</u>
<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>

(5) Supplemental Cash Flow Information

Income taxes paid during the six months ended June 30, 2007 and 2006 was \$1,254,874 and \$781,789 respectively. Interest paid for the six months ended June 30, 2007 and 2006 was \$387,101 and \$443,377, respectively.

(6) 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, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Unrealized losses on investments:		
Unrealized holding losses arising during period	\$(979,872)	(1,100,337)
Less reclassification adjustment for losses included in net income	(16,720)	(26,391)
Unrealized gain on derivatives qualifying as cash flow hedges	<u>2,097</u>	<u>63,563</u>
Other comprehensive income (loss)	<u>\$(994,495)</u>	<u>(1,063,165)</u>

(7) Stock-Based Compensation

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

Compensation expense of \$70,488 and \$114,146 is reflected in net earnings for the six months ended June 30, 2007 and 2006, respectively. The Company applied the recognition and measurement principles of SFAS 123R, Share Based Payment beginning January 1, 2006.

As of June 30, 2007 there were 361,000 stock options outstanding of which 97,400 were not yet vested. The compensation costs related to non-vested share compensation arrangements granted but not yet recognized was approximately \$175,000 as of June 30, 2007. The Company expects to recognize that cost over a weighted average period of 3.0 years.

(8) Investments

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

The Company makes investments in collateralized mortgage obligations (CMOs). CMOs typically have high credit quality, offer good liquidity, and provide a significant advantage in yield and total return compared to U.S. Treasury securities. The Company's investment strategy is to purchase CMO tranches which offer the most favorable return given the risks involved. One significant risk evaluated is prepayment sensitivity. This drives the investment process to generally favor prepayment protected CMO tranches including planned amortization classes and last cash flow tranches. The Company does invest in other types of CMO tranches if a careful assessment indicates a favorable risk/return tradeoff. The Company does not purchase residual interests in CMOs.

An investment in debt or equity security is impaired if its fair value falls below its book value and the decline is considered to be other-than temporary. Factors considered in determining whether a decline is other-than-temporary include the length of time and the extent to which fair value has been below cost, the financial condition and the near-term prospects of the issuer; and the Company's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery. Additionally, for certain securitized financial assets with contractual cash flows (including asset backed securities), EITF 99-20 requires the Company to periodically update its best estimate of cash flows over the life of the security. If management determines that the fair value of its securitized financial asset is less than its carrying amount and there has been a decrease in the present value of the estimated cash flows since the last revised estimate, considering both timing and amount, then an other-than-temporary impairment charge is recognized. A debt security is impaired if it is probable that the Company will not be able to collect all amounts due under the security's contractual terms. Equity investments are impaired when it becomes apparent that the Company will not recover its cost over the expected holding period and consideration is given to the financial condition of the issue. Further, for securities expected to be sold, an other-than-temporary impairment charge is recognized if the Company does not expect the fair value of a security to recover the cost prior to the expected date of sale.

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

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

The gross unrealized investment losses and related fair value for fixed maturities and equity securities at June 30, 2007 and 2006 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>2007:</u>						
Fixed maturities:						
States, municipalities and political subdivisions	\$ ---	---	717,385	23,505	717,385	23,505
United States government and government agencies	5,932,611	72,442	4,224,335	54,460	10,156,946	126,902
Mortgage-backed securities	4,960,110	171,992	25,611,056	367,378	30,571,166	539,370
Industrial and miscellaneous	<u>1,441,135</u>	<u>58,865</u>	<u>978,030</u>	<u>21,970</u>	<u>2,419,165</u>	<u>80,835</u>
Total fixed maturities	12,333,856	303,299	31,530,806	467,313	43,864,662	770,612
Equity securities – redeemable preferred:	6,311,655	150,845	3,104,600	145,400	9,416,255	296,245
Equity securities – perpetual preferred:	<u>740,700</u>	<u>9,300</u>	<u>1,882,800</u>	<u>100,000</u>	<u>2,623,500</u>	<u>109,300</u>
Total equity	7,052,355	160,145	4,987,400	245,400	12,039,755	405,545
Total temporarily impaired securities	<u>\$19,386,211</u>	<u>463,444</u>	<u>36,518,216</u>	<u>712,713</u>	<u>55,904,417</u>	<u>1,176,157</u>
	<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	--	--	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	5,293,380	251,300	4,614,400	385,600	9,907,780	636,900
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>

Management has determined that the above unrealized losses were temporary.

(9) Segment Reporting

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

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

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

The Company evaluates performance based on earnings before income taxes and excluding interest expense. The Company accounts for intersegment revenue and expenses as if the products/services were to third parties. Information relating to the two segments for the three and six-month periods ended June 30, 2007 and 2006 is summarized as follows:

	<u>Three Months ended</u>		<u>Six Months ended</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Revenues:				
ACSTAR Bonding	\$3,560,780	4,153,506	7,527,021	7,795,867
ACMAT Contracting	<u>2,118,668</u>	<u>2,705,379</u>	<u>3,976,432</u>	<u>5,116,644</u>
	<u>\$5,679,448</u>	<u>6,858,885</u>	<u>11,503,453</u>	<u>12,912,511</u>
Operating Earnings (Loss):				
ACSTAR Bonding	\$1,961,101	2,176,348	4,104,412	3,963,029
ACMAT Contracting	<u>(123,463)</u>	<u>(129,371)</u>	<u>(436,486)</u>	<u>(368,161)</u>
	<u>\$1,837,638</u>	<u>2,046,977</u>	<u>3,667,926</u>	<u>3,594,868</u>
Depreciation and Amortization:				
ACSTAR Bonding	\$(54,980)	12,411	(101,112)	17,020
ACMAT Contracting	<u>109,460</u>	<u>125,197</u>	<u>222,980</u>	<u>252,672</u>
	<u>\$ 54,480</u>	<u>112,786</u>	<u>121,868</u>	<u>235,652</u>
Identifiable Assets:				
	<u>June 30, 2007</u>		<u>December 31, 2006</u>	
ACSTAR Bonding	\$ 96,200,816		100,630,884	
ACMAT Contracting	<u>24,828,625</u>		<u>28,362,450</u>	
	<u>\$121,029,441</u>		<u>128,993,334</u>	

The components of revenue for each segment for the three and six-month periods ended June 30, 2007 and 2006 are as follows:

	<u>Three Months ended</u>		<u>Six Months ended</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
ACSTAR Bonding:				
Premiums	\$2,452,315	3,160,353	5,374,840	5,859,158
Investment income, net	1,116,811	1,011,936	2,198,725	1,953,789
Capital gains (losses)	--	(781)	(14,052)	106
Other	<u>(8,346)</u>	<u>(18,002)</u>	<u>(32,492)</u>	<u>(17,186)</u>
	<u>\$3,560,780</u>	<u>4,153,506</u>	<u>7,527,021</u>	<u>7,795,867</u>
ACMAT Contracting:				
Contract revenues	\$1,274,893	1,559,597	2,369,760	3,273,358
Investment income, net	191,041	205,314	367,330	408,742
Intersegment revenue:				
Rental income	79,150	79,150	158,299	158,299
Underwriting services, agency commissions and funds administration services	410,421	769,123	865,049	1,104,706
Capital gains (losses)	(2,668)	(26,497)	(2,668)	(26,497)
Other	<u>165,831</u>	<u>118,692</u>	<u>218,662</u>	<u>198,036</u>
	<u>\$2,118,668</u>	<u>2,705,379</u>	<u>3,976,432</u>	<u>5,116,644</u>

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

Revenue:	<u>Three Months ended</u>		<u>Six Months ended</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Total revenue for reportable segments	\$5,679,448	6,858,885	11,503,453	12,912,511
Intersegment eliminations	<u>(297,754)</u>	<u>(547,604)</u>	<u>(602,271)</u>	<u>(879,831)</u>
	<u>\$5,381,694</u>	<u>6,311,281</u>	<u>10,901,182</u>	<u>12,032,680</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	\$1,837,638	2,046,977	3,667,926	3,594,868
Interest expense	<u>(187,940)</u>	<u>(231,019)</u>	<u>(384,211)</u>	<u>(446,025)</u>
	<u>\$1,649,698</u>	<u>1,815,958</u>	<u>3,283,715</u>	<u>3,148,843</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.