

ACMAT CORPORATION AND SUBSIDIARIES  
MARCH 31, 2011

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ACMAT CORPORATION AND SUBSIDIARIES  
Consolidated Balance Sheets

<u>Assets</u>	March 31, <u>2011</u> (Unaudited)	December 31, <u>2010</u>
Investments:		
Fixed maturities-available for sale at fair value (Cost of \$66,063,252 in 2011 and \$68,673,253 in 2010)	\$66,532,439	\$69,091,471
Equity securities, at fair value (Cost of \$7,933,353 in 2011 and \$5,330,369 in 2010)	8,284,201	5,858,523
Short-term investments, at cost which approximates fair value	<u>5,623,597</u>	<u>5,625,451</u>
Total investments	80,440,237	80,575,445
Cash and cash equivalents	8,908,189	7,058,631
Accrued interest receivable	680,874	662,445
Receivables, net of allowance for doubtful accounts of \$48,266 in 2011 and 2010	904,046	786,082
Reinsurance recoverable:		
Unpaid losses	3,741,424	3,718,182
Paid losses	--	36,492
Prepaid expenses	20,146	76,435
Property & equipment, net	953,022	3,635,467
Deferred income taxes	1,843,141	1,808,332
Income taxes receivable	106,787	179,297
Deferred policy acquisition costs	523,084	508,850
Other assets	875,929	897,479
Intangibles	<u>1,920,360</u>	<u>1,920,360</u>
	<u>\$100,917,239</u>	<u>\$101,863,497</u>
 <u>Liabilities &amp; Stockholders' Equity</u>		
Accounts payable	\$ 341,232	\$ 377,964
Reserves for losses and loss adjustment expenses	20,290,338	20,157,801
Unearned premiums	1,155,274	1,270,749
Collateral held	29,124,241	29,203,374
Accrued liabilities	1,138,333	1,789,445
Long-term debt	<u>8,214,286</u>	<u>8,571,429</u>
Total liabilities	60,263,704	61,370,762
 Stockholders' Equity:		
Common Stock (No par value; 3,500,000 shares authorized; 468,546 and 468,546 shares issued and outstanding)	468,546	\$ 468,546
Class A Stock (No par value; 10,000,000 shares authorized; 898,655 and 898,655 shares issued and outstanding)	898,655	898,655
Retained earnings	38,753,510	38,459,801
Accumulated other comprehensive loss	<u>532,824</u>	<u>665,733</u>
Total stockholders' equity	<u>40,653,535</u>	<u>40,492,735</u>
	<u>\$100,917,239</u>	<u>\$101,863,497</u>

See Notes to Unaudited Consolidated Financial Statements.

ACMAT CORPORATION AND SUBSIDIARIES  
Consolidated Statements of Earnings (Unaudited)  
Three Months Ended March 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Earned premiums	\$609,957	886,010
Contract revenues	--	20,788
Investment income, net	643,890	788,949
Net realized capital gains	324,890	433,517
Other income	<u>95,938</u>	<u>171,762</u>
	<u>1,674,675</u>	<u>2,301,026</u>
Cost of contract revenues	--	44,374
Losses and loss adjustment expenses	85,241	177,202
Amortization of policy acquisition costs	241,575	326,430
General and administrative expenses	893,839	945,453
Interest expense	<u>69,236</u>	<u>79,288</u>
	<u>1,289,891</u>	<u>1,572,747</u>
Earnings before income taxes	384,784	728,279
Income taxes	<u>92,983</u>	<u>226,202</u>
Net earnings	<u>\$291,801</u>	<u>502,077</u>
Basic Earnings Per Share	\$ .21	.37
Diluted Earnings Per Share	\$ .20	.34

See Notes to Unaudited Consolidated Financial Statements.

ACMAT CORPORATION AND SUBSIDIARIES  
Consolidated Statements of Stockholders' Equity (Unaudited)  
March 31, 2011 and 2010

	Common Stock par value	Class A Stock par value	Retained earnings	Accumulated other comprehensive income (loss)	Total stockholders' equity
Balance as of December 31, 2009	\$468,546	898,655	37,502,210	257,846	39,127,257
Comprehensive income:					
Net unrealized gains on debt and equity securities	--	--	--	269,509	269,509
Net earnings	--	--	502,077	--	502,077
Total comprehensive income					771,586
Stock based compensation	<u>--</u>	<u>--</u>	<u>6,541</u>	<u>--</u>	<u>6,541</u>
Balance as of March 31, 2010	<u>\$468,546</u>	<u>898,655</u>	<u>38,010,828</u>	<u>527,355</u>	<u>39,905,384</u>
Balance as of December 31, 2010	\$468,546	898,655	38,459,801	665,733	40,492,735
Comprehensive income:					
Net unrealized losses on debt and equity securities, net of reclassification	--	--	--	(132,909)	(132,909)
Net earnings	--	--	291,801	--	291,801
Total comprehensive income					158,892
Stock based compensation	<u>--</u>	<u>--</u>	<u>1,908</u>	<u>--</u>	<u>1,908</u>
Balance as of March 31, 2011	<u>\$468,546</u>	<u>898,655</u>	<u>38,753,510</u>	<u>532,824</u>	<u>40,653,535</u>

See Notes to Unaudited Consolidated Financial Statements.

ACMAT CORPORATION AND SUBSIDIARIES  
Consolidated Statements of Cash Flows (Unaudited)  
Three Months Ended March 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Net earnings	\$ 291,801	502,077
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	179,752	241,609
Stock option expense	1,908	6,541
Net realized capital gains	(332,542)	(433,517)
Changes in:		
Accrued interest receivable	(18,429)	(41,434)
Reinsurance recoverable	13,250	(30,262)
Receivables, net	(117,964)	125,469
Deferred policy acquisition costs	(14,234)	(3,943)
Prepaid expenses and other assets	77,839	(116,442)
Accounts payable and accrued liabilities	(687,844)	(27,711)
Cash collateral held	(79,133)	(735,620)
Reserves for losses and loss adjustment expenses	132,537	(752,741)
Income taxes, net	77,128	205,816
Unearned premiums	<u>(115,475)</u>	<u>(99,569)</u>
Net cash used for operating activities	<u>(591,406)</u>	<u>(1,159,727)</u>
Cash flows from investing activities:		
Proceeds from investments sold or matured:		
Fixed maturities—sold	4,242,491	9,639,546
Fixed maturities—matured	1,295,000	700,000
Equity securities	1,520,007	493,343
Purchases of:		
Fixed maturities	(3,067,453)	(10,385,507)
Equity securities	(3,859,112)	(2,148,731)
Short-term investments, (purchases) sales, net	1,854	2,435,549
Sale of building, net of commission	2,732,570	--
Capital expenditures	<u>(67,250)</u>	<u>(618,610)</u>
Net cash provided by investing activities	<u>2,798,107</u>	<u>115,590</u>
Cash flows from financing activities:		
Repayments on long-term debt	(357,143)	(357,143)
Payments for acquisition & retirement of stock	--	--
Net cash used for financing activities	<u>(357,143)</u>	<u>(357,143)</u>
Net change in cash and cash equivalents	1,849,558	(1,401,280)
Cash and cash equivalents at beginning of period	<u>7,058,631</u>	<u>10,074,955</u>
Cash and cash equivalents at end of period	<u>\$8,908,189</u>	<u>8,673,675</u>

See Notes to Unaudited Consolidated Financial Statements.

ACMAT CORPORATION AND SUBSIDIARIES  
NOTES TO UNAUDITED 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, 2010.

(2) Accounting Standards

In June 2009, the FASB issued updated guidance on the accounting for variable interest entities that eliminates the concept of a qualifying special-purpose entity and the quantitative-based risks and rewards calculation of the previous guidance for determining which company, if any, has a controlling financial interest in a variable interest entity. The guidance requires an analysis of whether a company has: (1) the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (2) the obligation to absorb the losses that could potentially be significant to the entity or the right to receive benefits from the entity that could potentially be significant to the entity. An entity is required to be re-evaluated as a variable interest entity when the holders of the equity investment at risk, as a group, lose the power from voting rights or similar rights to direct the activities that most significantly impact the entity's economic performance. Additional disclosures are required about a company's involvement in variable interest entities and an ongoing assessment of whether a company is the primary beneficiary.

The guidance is effective for all variable interest entities owned on or formed after January 1, 2010. The Company adopted this guidance and there has been no material impact as result of adoption.

(3) Subsequent Events

The Company has evaluated subsequent events since the date of these consolidated financial statements through the issuance date of June 1, 2011.

(4) 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 three-month periods ended March 31, 2011 and 2010:

<u>2011:</u>	<u>Earnings</u>	<u>Average Shares Outstanding</u>	<u>Per-Share Amount</u>
Basic EPS:			
Earnings available to stockholders	\$291,801	1,367,200	.21
Effect of Dilutive Securities:			
Stock options	---	<u>108,349</u>	
Diluted EPS:			
Earnings available to stockholders	<u>\$291,801</u>	<u>1,475,549</u>	.20

<u>2010</u>			
Basic EPS:			
Earnings available to stockholders	\$502,077	1,367,200	\$ .37
Effect of Dilutive Securities:			
Stock options	—	<u>117,331</u>	
Diluted EPS:			
Earnings available to stockholders	<u>\$502,077</u>	<u>1,484,531</u>	\$ .34

#### (5) Supplemental Cash Flow Information

Income tax paid during the three months ended March 31, 2011 and 2010 was \$15,855 and \$20,386, respectively. Interest paid for the three months ended March 31, 2011 and 2010 was \$69,236 and \$79,288, respectively.

#### (6) Comprehensive Income

The following table summarizes reclassification adjustments for other comprehensive income (loss) and the related tax effects for the three months ended March 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Unrealized gains (losses) on investments:		
Unrealized holding gain arising during period, net of income tax	\$ 81,518	555,630
Less reclassification adjustment for gains included in net earnings, net of income tax expense of \$110,463 and \$147,396 in 2011 and 2010, respectively	<u>214,427</u>	<u>286,121</u>
Other comprehensive income (loss)	<u>\$(132,909)</u>	<u>269,509</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.

As of March 31, 2011 there were 290,500 stock options outstanding of which 14,000 were not yet vested. The compensation costs related to non-vested share compensation arrangements granted but not yet recognized was approximately \$1,900 as of March 31, 2011. The Company expects to recognize that cost over a weighted average period of less than one year. Compensation expense of \$1,908 and \$6,541 is reflected in net earnings for the first quarter of 2011 and 2010, respectively.

#### (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 residential collateralized mortgage obligations (CMOs) that typically have high credit quality, offer good liquidity, and are expected to provide a significant advantage in yield 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. While prepayment risk (either shortening or lengthening of duration) and its effect on total return cannot be fully controlled, particularly when interest rates move dramatically, the investment process generally favors securities that control this risk within expected interest rate ranges. 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 other-than-temporarily 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.

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 issuer. 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, with documentation of the rationale for the decision.



The amortized cost and estimated fair value of investments in fixed maturities classified as available for sale and equity securities at March 31, 2011 and December 31, 2010 were as follows:

		<u>March 31, 2011</u>		
	<u>Amortized Cost</u>	<u>Gross Gains</u>	<u>Gross Losses</u>	<u>Fair Value</u>
<b>Fixed Maturities:</b>				
States, municipalities and political subdivisions	\$24,938,066	207,689	(327,538)	24,818,217
U.S. Government and government agencies	4,102,646	22,844	(2)	4,125,488
Mortgage-backed securities	24,736,932	561,542	(163,982)	25,134,492
Industrial and miscellaneous	10,838,408	197,627	(17,924)	11,018,111
Redeemable preferred securities	<u>1,447,200</u>	<u>20,021</u>	<u>(31,090)</u>	<u>1,436,131</u>
	<u>\$66,063,252</u>	<u>1,009,723</u>	<u>(540,536)</u>	<u>66,532,439</u>
Equity Securities	<u>\$ 7,933,353</u>	<u>668,899</u>	<u>(318,051)</u>	<u>8,284,201</u>
		<u>December 31, 2010</u>		
	<u>Amortized Cost</u>	<u>Gross Gains</u>	<u>Gross Losses</u>	<u>Fair Value</u>
<b>Fixed Maturities:</b>				
States, municipalities and political subdivisions	\$23,445,912	248,005	(304,470)	23,389,447
U.S. Government and government agencies	4,105,455	30,959	(254)	4,136,160
Mortgage-backed securities	27,231,262	564,576	(223,043)	27,572,795
Industrial and miscellaneous	12,407,424	253,570	(70,523)	12,590,471
Redeemable preferred securities	<u>1,447,200</u>	<u>6,513</u>	<u>(51,115)</u>	<u>1,402,598</u>
	<u>\$68,637,253</u>	<u>1,103,623</u>	<u>(649,405)</u>	<u>69,091,471</u>
Equity Securities	<u>\$ 5,320,369</u>	<u>784,696</u>	<u>(246,542)</u>	<u>5,858,523</u>

Management has determined that the above unrealized losses were temporary.

#### (9) Fair Value Measurements

The Company's estimates of fair value for financial assets and financial liabilities are based on the framework established in FAS 157. The framework is based on the inputs used in valuation, gives the highest priority to quoted prices in active markets and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the FAS 157 hierarchy is based on whether the significant inputs into the valuation are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect the Company's significant market assumptions. The three levels of the hierarchy are as follows:

- Level 1 – Unadjusted quoted market prices for identical assets or liabilities in active markets that the Company has the ability to access.
- Level 2 – Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; or valuations based on models where the significant inputs are observable (e.g., interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.
- Level 3 – Valuations based on models where significant inputs are not observable. The unobservable inputs reflect the Company's own assumptions about the assumptions that market participants would use.

#### **Valuation of Investments Reported at Fair Value in Financial Statements**

The fair value of a financial instrument is the estimated amount at which the instrument could be exchanged in an orderly transaction between knowledgeable, unrelated willing parties, i.e., not in a forced transaction. The estimated fair value of a financial instrument may differ from the amount that could be realized if the security was sold in an immediate sale, e.g., a forced transaction. Additionally, the valuation of fixed maturity investments is more subjective when markets are less liquid due to the lack of market

based inputs, which may increase the potential that the estimated fair value (i.e., the carrying amount) of an investment is not reflective of the price at which an actual transaction would occur.

For investments that have quoted market prices in active markets, the Company uses the quoted market prices as fair value and includes these prices in the amounts disclosed in Level 1 of the hierarchy. The Company receives the quoted market prices from a third party nationally recognized pricing service (pricing service). When quoted market prices are unavailable, the Company utilizes a pricing service to determine an estimate of fair value, which is mainly for its fixed maturity investments. The fair value estimates provided from this pricing service are included in the amount disclosed in Level 2 of the hierarchy. If quoted market prices and an estimate from a pricing service are unavailable, the Company produces an estimate of fair value based on internally developed valuation techniques, which, depending on the level of observable market inputs, will render the fair value estimate as Level 2 or Level 3. The Company bases all of its estimates of fair value for assets on the bid price as it represents what a third party market participant would be willing to pay in an arm's length transaction. The following section describes the valuation methods used by the Company for each type of financial instrument it holds that is carried at fair value.

#### *Fixed Maturities*

The Company utilizes a pricing service to estimate fair value measurements for all of its fixed maturities. The pricing service utilizes market quotations for fixed maturity securities that have quoted prices in active markets. Since fixed maturities other than U.S. Treasury securities generally do not trade on a daily basis, the pricing service prepares estimates of fair value measurements for these securities using its proprietary pricing applications which include available relevant market information, benchmark curves, benchmarking of like securities, sector groupings and matrix pricing.

The fair value estimates of most fixed maturity investments are based on observable market information rather than market quotes. Accordingly, the estimates of fair value for such fixed maturities, other than U.S. Treasury securities, provided by the pricing service are included in the amount disclosed in Level 2 of the hierarchy. The estimated fair value U.S. Treasury securities are included in the amount disclosed in Level 1 as the estimates are based on unadjusted market prices.

#### *Equities*

For public common and preferred stocks, the Company receives prices from a nationally recognized pricing service that are based on observable market transactions and includes these estimates in the amount disclosed in Level 1. Infrequently, current market quotes in active markets are unavailable for certain non-redeemable preferred stocks held by the Company. In these instances, the Company receives an estimate of fair value from the pricing service that provides fair value estimates for the Company's fixed maturities. The service utilizes some of the same methodologies to price the non-redeemable preferred stocks as it does for the fixed maturities. The Company includes the estimate in the amount disclosed in Level 2.

#### *Fair Value Hierarchy*

The following table presents the level within the fair value hierarchy at which the Company's financial assets and financial liabilities are measured on a recurring basis at March 31, 2011.

(in millions)	Total	Level 1	Level 2	Level 3
Invested assets:				
Fixed maturities	66,532,439	4,125,488	62,406,951	--
Equity securities	8,284,201	6,930,591	1,353,610	--
Short-term investments	<u>5,623,597</u>	<u>5,623,597</u>	<u>--</u>	<u>--</u>
Total	<u>80,440,237</u>	<u>16,679,676</u>	<u>63,760,561</u>	<u>--</u>

The gross unrealized investment losses and related fair value for fixed maturities and equity securities at March 31, 2011 and December 31, 2010 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>March 31, 2011:</u>						
Fixed maturities:						
States, municipalities and political subdivisions	\$12,450,919	299,166	1,727,066	28,372	14,177,985	327,538
United States government and government agencies	--276,312	2	--	--	276,312	2
Mortgage-backed securities	4,792,051	85,751	285,582	78,231	5,077,633	163,982
Industrial and miscellaneous	1,477,181	17,924	--	--	1,477,181	17,924
Redeemable preferred stock	--	--	<u>456,410</u>	<u>31,090</u>	<u>456,410</u>	<u>31,090</u>
Total fixed maturities	18,996,463	402,843	2,469,058	137,693	21,465,521	540,536
Equity securities – common stocks:	3,324,100	184,286	412,400	69,725	3,736,500	254,011
Equity securities – perpetual preferred:	<u>192,800</u>	<u>7,200</u>	<u>684,560</u>	<u>56,840</u>	<u>877,300</u>	<u>64,040</u>
Total equity	<u>3,516,900</u>	<u>191,486</u>	<u>996,960</u>	<u>126,565</u>	<u>4,613,800</u>	<u>318,051</u>
Total temporarily impaired securities	<u>\$22,513,363</u>	<u>594,329</u>	<u>3,466,018</u>	<u>264,258</u>	<u>26,079,321</u>	<u>858,587</u>
<u>December 31, 2010:</u>						
Fixed maturities:						
States, municipalities and political subdivisions	\$11,040,794	286,812	1,256,255	17,658	12,297,049	304,470
United States government and government agencies	276,623	254	--	--	276,623	254
Mortgage-backed securities	4,547,205	59,348	1,472,984	163,695	6,020,189	223,043
Industrial and miscellaneous	3,549,408	70,523	--	--	3,549,408	70,523
Redeemable preferred:	--	--	<u>973,935</u>	<u>51,115</u>	<u>973,935</u>	<u>51,115</u>
Total fixed maturities	19,414,030	416,937	3,703,174	232,468	23,117,204	649,405
Equity securities – common stocks:	896,900	156,622	--	--	896,900	156,622
Equity securities – perpetual preferred:	--	--	<u>651,480</u>	<u>89,920</u>	<u>651,480</u>	<u>89,920</u>
Total equity	<u>\$896,900</u>	<u>156,622</u>	<u>651,480</u>	<u>89,920</u>	<u>1,548,380</u>	<u>246,542</u>
Total temporarily impaired securities	<u>\$20,310,930</u>	<u>573,559</u>	<u>4,354,654</u>	<u>322,388</u>	<u>24,665,584</u>	<u>895,947</u>

Management has determined that the above unrealized losses were temporary

#### (10) Segment Reporting

The Company has two reportable operating segments: ACMAT Contracting and ACSTAR Bonding. 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 surety bonds written for prime, specialty trade, environmental, asbestos and lead abatement contractors and miscellaneous obligations. ACSTAR also offers commercial and 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 subsidiaries as well as to 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 three segments for the three-month periods ended March 31, 2011 and 2010 is summarized as follows:

	<u>2011</u>	<u>2010</u>
Revenues:		
ACSTAR Bonding	\$1,214,120	2,009,940
ACMAT Contracting	<u>589,942</u>	<u>474,161</u>
	<u>\$1,804,062</u>	<u>2,484,101</u>
Operating Earnings (Loss):		
ACSTAR Bonding	\$614,385	1,162,157
ACMAT Contracting	<u>(160,365)</u>	<u>(354,590)</u>
	<u>\$454,020</u>	<u>807,567</u>
Depreciation and Amortization:		
ACSTAR Bonding	\$184,496	44,612
ACMAT Contracting	<u>(4,744)</u>	<u>196,997</u>
	<u>\$179,752</u>	<u>241,609</u>
Identifiable Assets:		<u>December 31, 2010</u>
ACSTAR Bonding	\$ 85,316,390	84,918,179
ACMAT Contracting	<u>15,600,849</u>	<u>16,945,318</u>
	<u>\$100,917,239</u>	<u>101,863,497</u>

The components of revenue for each segment for the three-month periods ended March 31, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
ACSTAR Bonding:		
Premiums	\$ 609,957	886,010
Investment income, net	520,206	688,107
Capital gains	83,592	433,517
Other income	<u>365</u>	<u>2,306</u>
	<u>\$1,214,120</u>	<u>2,009,940</u>
ACMAT Contracting:		
Contract revenues	\$ --	\$20,788
Investment income, net	47,868	22,296
Capital gains	241,298	--
Intersegment revenue:		
Rental income	66,516	79,149
Underwriting services and agency commissions	143,771	182,472
Other	<u>90,489</u>	<u>169,456</u>
	<u>\$589,942</u>	<u>\$474,161</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>2011</u>	<u>2010</u>
Revenue:		
Total revenue for reportable segments	\$1,804,062	2,484,101
Intersegment eliminations	<u>(129,387)</u>	<u>(183,075)</u>
	<u>\$1,674,675</u>	<u>2,301,026</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.

	<u>2011</u>	<u>2010</u>
Operating Earnings:		
Total operating earnings for reportable segments	\$454,020	807,567
Interest expense	<u>(69,236)</u>	<u>(79,288)</u>
	<u>\$384,784</u>	<u>728,279</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.