ACMAT CORPORATION AND SUBSIDIARIES
JUNE 30, 2010

TABLE OF CONTENTS

Consolidated Balance Sheets
Consolidated Statements of Earnings
Consolidated Statements of Stockholders' Equity
Consolidated Statements of Cash Flows
Notes to Consolidated Financial Statements

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets

| Assets | June 30, 2010 (Unaudited) | December 31, 2009 |
|---|---|---|
| Investments: | | |
| Fixed maturities-available for sale at fair value (Cost of $74,660,033 in 2010 and $75,453,859 in 2009) | $75,168,896 | 75,929,659 |
| Equity securities, at fair value (Cost of $4,994,079 in 2010 and $2,258,579 in 2009) | 4,715,322 | 2,173,504 |
| Short-term investments, at cost which approximates fair value | 2,241,728 | 3,436,351 |
| Total investments | 82,125,946 | 81,539,514 |
| Cash and cash equivalents | 7,033,882 | 10,074,955 |
| Accrued interest receivable | 651,326 | 680,580 |
| Receivables, net of allowance for doubtful accounts of $55,460 in 2010 and 2009 | 712,170 | 567,521 |
| Reinsurance recoverable: | | |
| Unpaid losses | 3,699,519 | 3,642,683 |
| Paid losses | -- | -- |
| Prepaid expenses | 130,432 | 114,618 |
| Property & equipment, net | 4,291,723 | 3,933,696 |
| Deferred income taxes | 1,789,659 | 1,831,331 |
| Income taxes receivable | 109,906 | 170,388 |
| Deferred policy acquisition costs | 582,049 | 589,454 |
| Other assets | 828,293 | 879,499 |
| Intangibles | 1,920,360 | 1,920,360 |
| | $103,875,265 | 105,944,599 |

| Liabilities & Stockholders' Equity | | |
|---|---|---|
| Accounts payable | 621,957 | 609,334 |
| Reserves for losses and loss adjustment expenses | 20,630,739 | 21,597,746 |
| Unearned premiums | 1,653,150 | 1,647,703 |
| Collateral held | 30,476,902 | 31,364,696 |
| Accrued liabilities | 1,226,825 | 1,597,863 |
| Long-term debt | 9,285,714 | 10,000,000 |
| Total liabilities | 63,895,287 | 66,817,342 |
| 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 | 38,503,916 | 37,502,210 |
| Accumulated other comprehensive | 108,861 | 257,846 |
| Total stockholders' equity | 39,979,978 | 39,127,257 |
| | $103,875,265 | 105,944,599 |

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 | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Contract revenues | $ -- | 474,511 | 20,788 | 1,065,467 |
| Earned premiums | 794,957 | 1,367,435 | 1,680,967 | 2,799,914 |
| Investment income, net | 751,494 | 812,352 | 1,540,443 | 1,607,663 |
| Net realized capital gains | 566,241 | 281,278 | 999,758 | 291,544 |
| Other income | 157,374 | 196,946 | 329,136 | 366,856 |
| | 2,270,066 | 3,132,522 | 4,571,092 | 6,131,444 |
| Cost of contract revenues | 45,153 | 650,624 | 89,527 | 1,465,249 |
| Losses and loss adjustment expenses | (12,534) | 303,487 | 164,668 | 619,983 |
| Amortization of policy acquisition costs | 228,142 | 510,179 | 554,572 | 951,414 |
| General and administrative expenses | 1,230,173 | 1,360,005 | 2,175,625 | 2,389,236 |
| Interest expense | 76,553 | 67,592 | 155,841 | 137,397 |
| | 1,567,487 | 2,891,887 | 3,140,233 | 5,563,279 |
| Earnings before income taxes | 702,579 | 240,635 | 1,430,859 | 568,165 |
| Income taxes | 216,034 | 86,216 | 442,235 | 177,248 |
| Net earnings | $486,545 | 154,419 | 988,624 | 390,917 |
| Basic earnings per share | $ .36 | .11 | .72 | .28 |
| Diluted earnings per share | $ .33 | .10 | .66 | .26 |

See Notes to Unaudited Consolidated Financial Statements.

## ACMAT CORPORATION AND SUBSIDIARIES
## Consolidated Statements of Stockholders' Equity (Unaudited)
## June 30, 2010 and 2009

| | Common Stock Par Value | Class A Stock Par Value | Retained Earnings | Accumulated Other Comprehensive Income(Loss) | Total Stockholders' Equity |
|---|---|---|---|---|---|
| Balance as of December 31, 2008 | $471,606 | 1,089,193 | 45,001,854 | (2,100,544) | 44,462,109 |
| Comprehensive income: | | | | | |
| Net unrealized gains on debt and equity securities, net of reclassification | -- | -- | -- | 1,136,461 | 1,136,461 |
| Net unrealized losses on derivatives qualifying as cash flow hedges | -- | -- | -- | 43,463 | 43,463 |
| Net earnings | -- | -- | 390,917 | -- | 390,917 |
| Total comprehensive income | | | | | 1,570,841 |
| Stock based compensation | -- | -- | 24,204 | -- | 24,204 |
| Acquisition and retirement of 2,710 shares of Common Stock | (2,710) | -- | (58,480) | -- | (61,190) |
| Acquisition and retirement of 197,188 shares of Class A Stock | -- | (197,188) | (4,829,503) | -- | (5,026,691) |
| Issuance of 7,000 shares of Class A Stock pursuant to stock options | -- | 7,000 | 90,201 | -- | 97,201 |
| Balance as of June 30, 2009 | $468,896 | 899,005 | 40,619,193 | (920,620) | 41,066,474 |
| | | | | | |
| Balance as of December 31, 2009 | $468,546 | 898,655 | 37,502,210 | 257,846 | 39,127,257 |
| Comprehensive income: | | | | | |
| Net unrealized losses on debt and equity securities, net of reclassification | -- | -- | -- | (148,985) | (148,985) |
| Net earnings | -- | -- | 988,624 | -- | 988,624 |
| Total comprehensive income | | | | | 839,639 |
| Stock based compensation | -- | -- | 13,082 | -- | 13,082 |
| Balance as of June 30, 2010 | 468,546 | 898,655 | 38,503,916 | 108,861 | 39,979,978 |

See Notes to Unaudited Consolidated Financial Statements.

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Unaudited)
Six Months Ended June 30, 2010 and 2009

| | 2010 | 2009 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net earnings | $988,624 | 390,917 |
| Adjustments to reconcile net earnings to net cash used for operating activities: | | |
| Stock based compensation | 13,082 | 24,204 |
| Depreciation and amortization | 694,114 | 256,648 |
| Net realized capital gains | (999,758) | (291,544) |
| Changes in: | | |
| Accrued interest receivable | 29,254 | (204,801) |
| Reinsurance recoverable | (56,836) | 21,580 |
| Receivables, net | (144,649) | 558,801 |
| Deferred policy acquisition costs | 7,405 | 223,475 |
| Prepaid expenses and other assets | 35,392 | 239,031 |
| Accounts payable and other accrued liabilities | (358,415) | 995,031 |
| Reserves for losses and loss adjustment expenses | (967,007) | 403,479 |
| Collateral held | (887,794) | 463,133 |
| Income taxes, net | 113,792 | 153,203 |
| Unearned premiums | 5,447 | (918,464) |
| Net cash provided by (used for) operating activities | (1,527,349) | 2,314,693 |
| Cash flows from investing activities: | | |
| Proceeds from investments sold or matured: | | |
| Fixed maturities-sold | 13,028,035 | 17,469,260 |
| Fixed maturities-matured | 5,227,500 | 1,212,000 |
| Equity securities | 1,847,798 | 754,997 |
| Purchases of: | | |
| Fixed maturities | (17,233,589) | (28,344,327) |
| Equity securities | (4,234,472) | (1,119,838) |
| Short-term investments, net | 1,194,623 | 15,697,088 |
| Capital expenditures | (629,333) | (104,351) |
| Net cash provided by (used for) investing activities | (799,438) | 5,564,829 |
| Cash flows from financing activities: | | |
| Repayments on long-term debt | (714,286) | (426,316) |
| Payments for acquisition & retirement of stock | -- | (5,087,881) |
| Tax benefit from exercise of stock options | -- | 34,201 |
| Issuance of Class A Stock | -- | 63,000 |
| Net cash used for financing activities | (714,286) | (5,416,996) |
| Net change in cash | (3,041,073) | 2,462,526 |
| Cash at beginning of period | 10,074,955 | 12,554,590 |
| Cash at end of period | $7,033,882 | 15,017,116 |

See Notes to Unaudited Consolidated Financial Statements.

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, 2009.

(2) Accounting Standards

The FASB has issued FASB Statement No. 168, *The "FASB Accounting Standards Codification@" and the "Hierarchy of Generally Accepted Accounting Principles"*. Statement 168 establishes the FASB Accounting Standards Codification @ (Codification or ASC) as the single source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The Codification supersedes all existing non-SEC accounting and reporting standards. All other non-grandfathered, non-SEC accounting literature not included in the Codification will become non-authoritative.

Following the Codification, the Board will not issue new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standards Updates, which will serve to update the Codification, provide background information about the guidance and provide the basis for conclusions on the changes to the Codification.

GAAP is not intended to be changed as a result of the FASB's Codification project, but it will change the way the guidance is organized and presented. As a result, these changes will have significant impact on how companies reference GAAP in their financial statements and in their accounting policies for financial statements issued for interim and annual periods ending after September 15, 2009. The Company has implemented the Codification in this filing by providing references to the Codification topics.

The Financial Accounting Standard Board (FASB) has issued a number of accounting pronouncements with various future effective dates.

On June 30, 2009, the Company adopted "Subsequent Events" (ASC 855-10), which provides guidance to establish general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. ASC 855-10 also requires disclosure of the date through which subsequent events were evaluated as well as the rationale for why the date was selected. The adoption of ASC 855-10 did not have an impact on the Company's financial position or results of operations.

In April 2009, the FASB issued an accounting standard that provided guidance on estimating fair value when the volume and level of activity for an asset or liability have significantly decreased and in identifying transactions that are not orderly. This accounting standard emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique(s) used, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. The accounting standard also includes guidance on identifying circumstances that indicate a transaction is not orderly. Revisions resulting from a change in valuation technique or its application are accounted for as a change in accounting estimate. The adoption of this accounting standard did not have a material impact on the Company's results of operations, financial condition or cash flow.

ASC 825-10-65-1 amends “Disclosures about Fair Value of Financial Instruments”, to require disclosures in the body or in the accompanying notes to financial statements for interim reporting periods and in financial statements for annual reporting periods for the fair value of all financial instruments for which it is practicable to estimate that value, whether recognized or not recognized in the balance sheet. This also amends “Interim Financial Reporting”, to require entities to disclose the methods and significant assumptions used to estimate the fair value of financial instruments and describe changes in methods and significant assumptions in both interim and annual financial statements. ASC 825-10-65-1 is effective for interim reporting periods ending after June 15, 2009. The Company adopted this guidance for the quarter ended March 31, 2010 and there has been no material impact as a result of adoption.

The objective of ASC 320-10-65-1, which amends existing other-than-temporary impairment guidance for debt securities, is to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. Specifically, the recognition guidance contained in ASC 320-10-65-1 applies to debt securities classified as available-for-sale and held-to-maturity that are subject to other-than-temporary impairment guidance.

Among other provisions, ASC 320-10-65-1 requires entities to: (1) split other-than-temporary impairment charges between credit losses (i.e., the loss based on the entity’s estimate of the decrease in cash flows, including those that result from expected voluntary prepayments), which are charged to earnings, and the remainder of the impairment charge (non-credit component) to other comprehensive income, net of applicable income taxes; (2) disclose information for interim and annual periods that enables financial statement users to understand the types of available-for-sale and held-to-maturity debt and equity securities held, including information about investments in an unrealized loss position for which an other-than-temporary impairment has or has not been recognized, and (3) disclose for interim and annual periods information that enables users of financial statements to understand the reasons that a portion of an other-than-temporary impairment of a debt security was not recognized in earnings and the methodology and significant inputs used to calculate the portion of the total other-than-temporary impairment that was recognized in earnings.

ASC 320-10-65-1 is effective for interim reporting periods ending after June 15, 2009. For debt securities held at the beginning of the interim period of adoption for which an other-than-temporary impairment was previously recognized, if an entity does not intend to sell and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis, the entity shall recognize the cumulative effect of initially apply this guidance as an adjustment to the opening balance of retained earnings with a corresponding adjustment to accumulated other comprehensive income and the impact of adoption accounted for as a change in accounting principles, with applicable disclosure provided. The Company adopted ASC 320-10-65-1 during the quarter ended June 30, 2009 and this adoption did not have an impact on any of the Other-Than-Temporary charges to date.

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 does not expect that the provisions of the guidance will have a material effect on its results of operations, financial position or liquidity.

(3) Subsequent Events

The Company has evaluated subsequent events since the date of these consolidated financial statements through the issuance date of August 11, 2010.

(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, 2010 and 2009:

| 2010: | Earnings | Weighted Average Shares Outstanding | Per-Share Amount |
|---|---|---|---|
| Basic EPS: | | | |
| Earnings available to stockholders | $486,545 | 1,367,200 | $.36 |
| Effect of Dilutive Securities: | | | |
| Stock options | -- | 124,498 | |
| Diluted EPS: | | | |
| Earnings available to stockholders | $486,545 | 1,491,698 | $.33 |
| 2009: | | | |
| Basic EPS: | | | |
| Earnings available to stockholders | $154,419 | 1,367,900 | $.11 |
| Effect of Dilutive Securities: | | | |
| Stock options | -- | 105,380 | |
| Diluted EPS: | | | |
| Earnings available to stockholders | $154,419 | 1,473,280 | $.10 |

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, 2010 and 2009:

| 2010: | Earnings | Weighted Average Shares Outstanding | Per-Share Amount |
|---|---|---|---|
| Basic EPS: | | | |
| Earnings available to stockholders | $988,624 | 1,367,200 | $.72 |
| Effect of Dilutive Securities: | | | |
| Stock options | -- | 121,064 | |
| Diluted EPS: | | | |
| Earnings available to stockholders | $988,624 | 1,488,264 | $.66 |
| 2009: | | | |
| Basic EPS: | | | |
| Earnings available to stockholders | $390,917 | 1,380,302 | $.28 |
| Effect of Dilutive Securities: | | | |
| Stock options | -- | 112,337 | |
| Diluted EPS: | | | |
| Earnings available to stockholders | $390,917 | 1,492,639 | $.26 |

(5) Supplemental Cash Flow Information

Income taxes paid during the six months ended June 30, 2010 and 2009 was $328,443 and $25,236 respectively. Interest paid for the six months ended June 30, 2010 and 2009 was $155,841 and $137,397, 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, 2010 and 2009:

| | 2010 | 2009 |
|---|---|---|
| Unrealized gains (losses) on investments: | | |
| Unrealized holding gains (losses) arising during period | $510,855 | 1,428,005 |
| Less reclassification adjustment for losses included in net income | 659,840 | 291,544 |
| Unrealized gain on derivatives qualifying as cash flow hedges | -- | 43,463 |
| Other comprehensive income (loss) | $(148,985) | 1,179,924 |

(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 June 30, 2010 there were 332,500 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 $8,000 as of June 30, 2009. The Company expects to recognize that cost over a weighted average of less than one year. Compensation expense of $13,082 and $24,204 is reflected in net earnings for the six months ended June 30, 2010 and 2009, 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 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. 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 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 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 amortized cost and fair value of investments in fixed maturities classified as available for sale and equity securities were as follows:

| | June 30, 2010 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Gains | Gross Losses | Fair Value |
| Fixed Maturities: | | | | |
| States, municipalities and political subdivisions | $23,202,266 | 380,808 | (61,272) | 23,521,802 |
| U.S. Government and government agencies | 4,108,715 | 33,343 | -- | 4,142,058 |
| Mortgage-backed securities | 31,517,118 | 571,055 | (436,468) | 31,651,705 |
| Industrial and miscellaneous | 13,462,384 | 295,877 | (69,609) | 13,688,652 |
| Redeemable preferred securities | 2,369,550 | 20,904 | (225,775) | 2,164,679 |
| | $74,660,033 | 1,301,987 | (793,124) | 75,168,896 |
| Equity Securities | $ 4,994,079 | 407,333 | (686,090) | 4,715,322 |

| | December 31, 2009 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Gains | Gross Losses | Fair Value |
| Fixed Maturities: | | | | |
| States, municipalities and political subdivisions | $20,088,164 | 247,533 | (179,231) | 20,156,466 |
| U.S. Government and government agencies | 3,882,864 | 83,816 | --- | 3,966,680 |
| Mortgage-backed securities | 33,013,588 | 284,042 | (460,434) | 32,837,196 |
| Industrial and miscellaneous | 15,864,193 | 630,107 | (6,653) | 16,487,647 |
| Redeemable preferred securities | 2,605,050 | 172,228 | (295,608) | 2,481,670 |
| | $75,453,859 | 1,417,726 | (941,926) | 75,929,659 |
| Equity Securities | $ 2,258,579 | 526,201 | (611,276) | 2,173,504 |

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 June 30, 2010.

| (in millions) | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Invested assets; | | | | |
| Fixed maturities | 75,168,896 | 4,142,058 | 71,026,838 | -- |
| Equity securities | 4,715,322 | 3,705,962 | 1,009,360 | -- |
| Short-term investments | 2,241,728 | 2,241,728 | -- | -- |
| Total | 82,125,946 | 10,089,748 | 72,036,198 | -- |

The gross unrealized investment losses and related fair value for fixed maturities and equity securities at June 30, 2010 and December 31, 2009 were as follows:

| | Less than 12 months | | 12 months or longer | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value | Gross Unrealized Loss | Fair Value | Gross Unrealized Loss | Fair Value | Gross Unrealized Loss |
| June 30, 2010: | | | | | | |
| Fixed maturities: | | | | | | |
| States, municipalities and political subdivisions | $6,511,411 | 57,962 | 851,895 | 3,310 | 7,363,306 | 61,272 |
| United States government and government agencies | -- | -- | -- | -- | -- | -- |
| Mortgage-backed securities | 5,792,572 | 152,548 | 3,177,673 | 283,920 | 8,970,245 | 436,468 |
| Industrial and miscellaneous | 2,042,671 | 69,609 | -- | -- | 2,042,671 | 69,609 |
| Redeemable preferred - securities | -- | -- | 1,741,775 | 225,775 | 1,741,775 | 225,775 |
| Total fixed maturities | 14,346,654 | 280,119 | 5,771,343 | 513,005 | 20,117,997 | 793,124 |
| Equity securities - common stocks: | 2,162,231 | 362,650 | -- | -- | 2,162,231 | 362,650 |
| - perpetual preferred | -- | -- | 1,009,360 | 323,440 | 1,009,360 | 323,440 |
| Total equity | 2,162,231 | 362,650 | 1,009,360 | 323,440 | 3,171,591 | 686,090 |
| Total temporarily impaired securities | $16,508,885 | 642,769 | 6,780,703 | 836,445 | 23,289,588 | 1,479,214 |

| | Less than 12 months | | 12 months or longer | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value | Gross Unrealized Loss | Fair Value | Gross Unrealized Loss | Fair Value | Gross Unrealized Loss |
| December 31, 2009: | | | | | | |
| Fixed maturities: | | | | | | |
| States, municipalities and political subdivisions | $10,021,512 | 176,490 | 51,300 | 2,741 | 10,072,812 | 179,231 |
| United States government and government agencies | -- | -- | -- | -- | -- | -- |
| Mortgage-backed securities | 10,696,725 | 82,433 | 3,793,423 | 378,001 | 14,490,148 | 460,434 |
| Industrial and miscellaneous | 1,369,439 | 6,653 | -- | -- | 1,369,439 | 6,653 |
| Redeemable preferred - securities | -- | -- | 1,671,942 | 295,608 | 1,671,942 | 295,608 |
| Total fixed maturities | 22,087,676 | 265,576 | 5,516,665 | 676,350 | 27,604,341 | 941,926 |
| Equity securities – common stocks: | -- | -- | 14,428 | 25,016 | 14,428 | 25,016 |
| Equity securities – perpetual preferred: | -- | -- | 1,246,540 | 586,260 | 1,246,540 | 586,260 |
| Total equity | -- | -- | 1,260,968 | 611,276 | 1,260,968 | 611,276 |
| Total temporarily impaired securities | $22,087,676 | 265,576 | 6,777,633 | 1,287,626 | 28,865,309, | 1,553,202 |

## (10) 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, 2010 and 2009 is summarized as follows:

| | Three Months ended | | Six Months ended | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Revenues: | | | | |
| ACSTAR Bonding | $1,941,313 | 2,358,446 | 3,951,253 | 4,540,165 |
| ACMAT Contracting | 518,082 | 957,204 | 992,243 | 1,951,327 |
| | $2,459,395 | 3,315,650 | 4,943,496 | 6,491,492 |
| Operating Earnings (Loss): | | | | |
| ACSTAR Bonding | $1,245,396 | 1,131,320 | 2,407,554 | 2,218,087 |
| ACMAT Contracting | (466,264) | (823,093) | (820,854) | (1,512,525) |
| | $ 779,132 | 308,227 | 1,586,700 | 705,562 |
| Depreciation and Amortization: | | | | |
| ACSTAR Bonding | $255,434 | 10,826 | 452,431 | 13,649 |
| ACMAT Contracting | 197,071 | 121,550 | 241,683 | 242,999 |
| | $452,505 | 132,376 | 694,114 | 256,648 |

| Identifiable Assets: | June 30, 2010 | December 31, 2009 |
|---|---|---|
| ACSTAR Bonding | $ 89,470,086 | 90,236,704 |
| ACMAT Contracting | 14,405,179 | 15,707,895 |
| | $103,875,265 | 105,944,599 |

The components of revenue for each segment for the three and six-month periods ended June 30, 2010 and 2009 are as follows:

| | Three Months ended | | Six Months ended | |
|---|---|---|---|---|
| | 2019 | 2009 | 2010 | 2009 |
| ACSTAR Bonding: | | | | |
| Premiums | $ 794,957 | 1,367,435 | 1,680,967 | 2,799,914 |
| Investment income, net | 637,083 | 720,788 | 1,325,190 | 1,433,440 |
| Capital gains | 499,711 | 279,741 | 933,228 | 290,051 |
| Other | 9,562 | (9,518) | 11,868 | 16,760 |
| | $1,941,313 | 2,358,446 | 3,951,253 | 4,540,165 |
| ACMAT Contracting: | | | | |
| Contract revenues | $ -- | 474,511 | 20,788 | 1,065,467 |
| Investment income, net | 35,934 | 21,404 | 58,230 | 29,063 |
| Intersegment revenue: | | | | |
| Rental income | 79,150 | 79,150 | 158,299 | 158,299 |
| Underwriting services, agency commissions and funds administration services | 204,248 | 223,344 | 408,890 | 415,097 |
| Capital gains (losses) | 66,530 | 1,537 | 66,530 | 1,493 |
| Other | 132,220 | 157,258 | 279,506 | 281,908 |
| | $518,082 | 957,204 | 992,243 | 1,951,327 |

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

| | Three Months ended | | Six Months ended | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Revenue: | | | | |
| Total revenue for reportable segments | $2,459,395 | 3,315,650 | 4,943,496 | 6,491,492 |
| Intersegment eliminations | (189,329) | (183,128) | (372,404) | (360,048) |
| | $2,270,066 | 3,132,522 | 4,571,092 | 6,131,444 |

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.

| | Three Months ended | | Six Months ended | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Operating Earnings: | | | | |
| Total operating earnings for reportable segments | $779,132 | 308,227 | 1,586,700 | 705,562 |
| Interest expense | (76,553) | (67,592) | (155,841) | (137,397) |
| | $702,579 | 240,635 | 1,430,859 | 568,165 |

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.