



ACMAT CORPORATION

**ACMAT CORPORATION AND SUBSIDIARIES**

Consolidated Financial Statements

March 31, 2012

(Unaudited)

**ACMAT CORPORATION AND SUBSIDIARIES**  
**March 31, 2012**

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**ACMAT CORPORATION AND SUBSIDIARIES**  
**Consolidated Balance Sheets**

	<b>March 31, 2012</b> (Unaudited)	<b>December 31, 2011</b>
<b><u>Assets</u></b>		
Investments:		
Fixed maturities (Cost of \$57,504,287 in 2012 and \$57,470,706 in 2011)	\$ 59,071,562	58,507,044
Equity securities (Cost of \$11,237,318 in 2012 and \$12,439,035 in 2011)	10,911,350	11,255,244
Short-term investments, at cost which approximates fair value	<u>5,263,510</u>	<u>6,654,516</u>
Total investments	75,246,422	76,416,804
Cash and cash equivalents	9,978,348	9,968,438
Accrued interest receivable	531,543	500,296
Receivables, net of allowance for doubtful accounts of \$48,266 in 2012 and 2011	898,744	921,785
Reinsurance recoverable:		
Unpaid losses	2,773,729	2,743,081
Paid losses	--	32,347
Prepaid expenses	84,007	71,716
Income taxes receivable	861,925	1,015,135
Deferred income taxes, net	498,883	1,108,753
Property and equipment, net	2,323,395	1,617,923
Deferred policy acquisition costs	157,090	186,858
Other assets	923,129	943,139
Intangibles	<u>1,920,360</u>	<u>1,920,360</u>
Total assets	<u>\$ 96,197,575</u>	<u>97,446,635</u>
<b><u>Liabilities and Stockholders' Equity</u></b>		
Accounts payable	\$ 825,928	616,707
Reserves for losses and loss adjustment expenses	17,021,759	17,506,782
Unearned premiums	1,076,178	1,241,007
Collateral held	27,748,941	28,500,822
Accrued liabilities	749,441	1,737,977
Long-term debt	<u>6,785,714</u>	<u>7,142,857</u>
Total liabilities	54,207,961	56,746,152
Stockholders' Equity:		
Common Stock (No par value; 3,500,000 shares authorized; 468,546 shares issued and outstanding)	468,546	468,546
Class A Stock (No par value; 10,000,000 shares authorized; 898,655 shares issued and outstanding)	898,655	898,655
Retained earnings	39,803,150	39,430,816
Accumulated other comprehensive income (loss)	<u>819,263</u>	<u>(97,534)</u>
Total stockholders' equity	<u>41,989,614</u>	<u>40,700,483</u>
Total liabilities and stockholders' equity	<u>\$ 96,197,575</u>	<u>97,446,635</u>

See Notes to Consolidated Financial Statements (Unaudited)

**ACMAT CORPORATION AND SUBSIDIARIES**  
**Consolidated Statements of Earnings (Unaudited)**  
**Three Months Ended March 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Revenues:		
Earned premiums	\$ 602,930	609,957
Investment income, net	637,166	643,890
Net realized capital gains	473,889	332,542
Other income	<u>22,458</u>	<u>95,938</u>
	<u>1,736,443</u>	<u>1,682,327</u>
Expenses:		
Losses and loss adjustment expenses	60,293	85,241
Amortization of policy acquisition costs	105,391	60,357
General and administrative expenses	986,599	1,060,342
Interest expense	<u>60,934</u>	<u>69,236</u>
	<u>1,213,217</u>	<u>1,275,176</u>
Earnings before income taxes	523,226	407,151
Income taxes	<u>150,892</u>	<u>100,587</u>
Net earnings	\$ <u>372,334</u>	<u>306,564</u>
Basic earnings per-share	\$ 0.27	0.22
Diluted earnings per-share	\$ 0.25	0.21

See Notes to Consolidated Financial Statements (Unaudited)

**ACMAT CORPORATION AND SUBSIDIARIES**  
**Consolidated Statements of Comprehensive Income (Unaudited)**  
**Three Months Ended March 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Net earnings	\$ 372,334	306,564
Change in net unrealized gains and losses on investment securities	1,388,760	(201,377)
Income tax expense (benefit)	<u>471,963</u>	<u>(68,468)</u>
Other comprehensive income (loss), net of taxes	<u>916,797</u>	<u>(132,909)</u>
Comprehensive income	<u>\$ 1,289,131</u>	<u>173,655</u>

See Notes to Consolidated Financial Statements (Unaudited)

**ACMAT CORPORATION AND SUBSIDIARIES**  
**Consolidated Statements of Stockholders' Equity (Unaudited)**  
**Three Months Ended March 31, 2012 and 2011**

	<u>Common Stock Par Value</u>	<u>Class A Stock Par Value</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total Stockholders' Equity</u>
Balance as of December 31, 2010	\$468,546	898,655	38,193,325	665,733	40,226,259
Comprehensive income:					
Net unrealized losses on investment securities, net of reclassification	--	--	--	(132,909)	(132,909)
Net earnings	<u>--</u>	<u>--</u>	<u>306,564</u>	<u>--</u>	<u>306,564</u>
Total comprehensive income	<u>--</u>	<u>--</u>	<u>306,564</u>	<u>(132,909)</u>	<u>173,655</u>
Share-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>38,501,797</u>	<u>532,824</u>	<u>40,401,822</u>
Balance as of December 31, 2011	\$468,546	898,655	39,430,816	(97,534)	40,700,483
Comprehensive income:					
Net unrealized gains on investment securities, net of reclassification	--	--	--	916,797	916,797
Net earnings	<u>--</u>	<u>--</u>	<u>372,334</u>	<u>--</u>	<u>372,334</u>
Total comprehensive income	<u>--</u>	<u>--</u>	<u>372,334</u>	<u>916,797</u>	<u>1,289,131</u>
Balance as of March 31, 2012	<u>\$468,546</u>	<u>898,655</u>	<u>39,803,150</u>	<u>819,263</u>	<u>41,989,614</u>

See Notes to Consolidated Financial Statements (Unaudited)

**ACMAT CORPORATION AND SUBSIDIARIES**  
**Consolidated Statements of Cash Flows (Unaudited)**  
**Three Months Ended March 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Net earnings	\$ 372,334	306,564
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	112,221	179,752
Stock option expense	---	1,908
Net realized capital gains	(473,889)	(332,542)
Deferred income tax expense	136,892	12,222
Changes in:		
Accrued interest receivable	(31,247)	(18,429)
Reinsurance recoverable	1,699	13,250
Receivables, net	23,041	(117,964)
Deferred policy acquisition costs	29,768	(36,601)
Prepaid expenses and other assets	8,848	77,839
Accounts payable and accrued liabilities	(779,315)	(687,844)
Cash collateral held	(751,881)	(79,133)
Reserves for losses and loss adjustment expenses	(485,023)	132,537
Income taxes, net	153,210	72,510
Unearned premiums	<u>(164,829)</u>	<u>(115,475)</u>
Net cash used for operating activities	<u>(1,848,171)</u>	<u>(591,406)</u>
Cash flows from investing activities:		
Proceeds from investments sold, matured or redeemed:		
Fixed maturities sold	---	4,242,491
Maturities and redemptions	3,161,226	1,295,000
Equity securities	13,209,582	1,520,007
Purchases of:		
Fixed maturities	(3,296,318)	(3,067,453)
Equity securities	(11,527,136)	(3,859,112)
Short-term investments, (purchases) sales, net	1,391,006	1,854
Sale of building, net of commission	---	2,732,570
Capital expenditures	<u>(723,136)</u>	<u>(67,250)</u>
Net cash provided by investing activities	<u>2,215,224</u>	<u>2,798,107</u>
Cash flows from financing activities:		
Repayments on long-term debt	<u>(357,143)</u>	<u>(357,143)</u>
Net cash used for financing activities	<u>(357,143)</u>	<u>(357,143)</u>
Net change in cash and cash equivalents	9,910	1,849,558
Cash and cash equivalents at beginning of period	<u>9,968,438</u>	<u>7,058,631</u>
Cash and cash equivalents at end of period	<u>\$9,978,348</u>	<u>8,908,189</u>
<u>Supplemental disclosure of cash flows information:</u>		
Cash paid for income taxes	38,499	15,855
Cash paid for interest	60,934	69,236

See Notes to Consolidated Financial Statements (Unaudited)

**ACMAT CORPORATION AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements (Unaudited)**

**(1) Basis of Presentation and Accounting Policies**

**Basis of Presentation**

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. Certain prior period balances have been reclassified to conform to the current period's presentation.

These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report for the year ended December 31, 2011.

**Adoption of Accounting Standards Updates**

*Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts*

In October 2010, the FASB issued updated guidance to address diversity in practice for the accounting for costs associated with acquiring or renewing insurance contracts. This guidance modifies the definition of acquisition costs to specify that a cost must be directly related to the successful acquisition of a new or renewal insurance contract in order to be deferred. If application of this guidance would result in the capitalization of acquisition costs that had not previously been capitalized by a reporting entity, the entity may elect not to capitalize those costs. The updated guidance was effective for the quarter ended March 31, 2012 and was applied retrospectively. The Company's adoption of the updated guidance resulted in a reduction of prior period deferred policy acquisition costs of \$355,472, an increase of prior period net deferred tax asset of \$120,860, and a net reduction of prior period retained earnings of \$234,612.

*Presentation of Comprehensive Income*

In June 2011, the FASB issued updated guidance to increase the prominence of items reported in other comprehensive income by eliminating the option of presenting components of comprehensive income as part of the statement of changes in shareholders' equity. The updated guidance requires that all non-owner changes in shareholders' equity be presented either as a single continuous statement of comprehensive income or in two separate but consecutive statements. The updated guidance is to be applied retrospectively and is effective for the quarter ending March 31, 2012. The updated guidance will result in a change in the presentation of the Company's consolidated financial statements but will not have any impact on the Company's results of operations, financial position or liquidity.

**Nature of Operations**

ACMAT, through its wholly-owned subsidiary, ACSTAR Insurance Company (ACSTAR), provides surety bonds for prime contractors, specialty trade, environmental remediation and asbestos abatement contractors, and miscellaneous surety. ACSTAR is licensed to write business nationwide and is an approved surety by the United States Department of the Treasury.



**ACMAT CORPORATION AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements (Unaudited)**

**(2) Investments**

The amortized cost and fair value of investments in fixed maturities and equity securities classified as available-for-sale as of March 31, 2012 and December 31, 2011 were as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized</u>		<u>Fair Value</u>
		<u>Gains</u>	<u>(Losses)</u>	
<u>As of March 31, 2012</u>				
U.S. government and government agencies	\$ 4,230,935	2,040	(1,111)	4,231,864
States, municipalities and political subdivisions	22,312,722	1,048,257	(31,216)	23,329,763
Industrial and miscellaneous	9,959,678	211,930	(93,887)	10,077,721
Mortgage-backed securities	19,153,752	621,506	(219,966)	19,555,292
Redeemable preferred stock	1,847,200	49,382	(19,660)	1,876,922
Total fixed maturities	<u>57,504,287</u>	<u>1,933,115</u>	<u>(365,840)</u>	<u>59,071,562</u>
Perpetual preferred stock	2,227,877	105,144	(90,840)	2,242,181
Common stock	9,009,441	577,896	(918,168)	8,669,169
Total equities	<u>11,237,318</u>	<u>683,040</u>	<u>(1,009,008)</u>	<u>10,911,350</u>
Total:	<u>\$ 68,741,605</u>	<u>2,616,155</u>	<u>(1,374,848)</u>	<u>69,982,912</u>

	<u>Amortized Cost</u>	<u>Gross Unrealized</u>		<u>Fair Value</u>
		<u>Gains</u>	<u>(Losses)</u>	
<u>As of December 31, 2011</u>				
U.S. government and government agencies	\$ 4,022,322	8,201	-	4,030,523
States, municipalities and political subdivisions	22,171,109	920,746	(34,789)	23,057,066
Industrial and miscellaneous	8,995,435	147,027	(132,791)	9,009,671
Mortgage-backed securities	20,634,640	535,473	(339,240)	20,830,873
Redeemable preferred stock	1,647,200	28,436	(96,725)	1,578,911
Total fixed maturities	<u>57,470,706</u>	<u>1,639,883</u>	<u>(603,545)</u>	<u>58,507,044</u>
Perpetual preferred stock	2,227,877	77,423	(281,140)	2,024,160
Common stock	10,211,158	551,843	(1,531,917)	9,231,084
Total equities	<u>12,439,035</u>	<u>629,266</u>	<u>(1,813,057)</u>	<u>11,255,244</u>
Total:	<u>\$ 69,909,741</u>	<u>2,269,149</u>	<u>(2,416,602)</u>	<u>69,762,288</u>

**ACMAT CORPORATION AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements (Unaudited)**

The following tables summarize, for all investments in an unrealized loss position at March 31, 2012 and December 31, 2011, the aggregate fair value and gross unrealized loss by length of time those securities have been continuously in an unrealized loss position:

	<u>Less than 12 months</u>		<u>Greater than 12 months</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>
<u>As of March 31, 2012</u>						
U.S. government and government agencies	\$ 697,658	1,111	-	-	697,658	1,111
States, municipalities and political subdivisions	439,498	4,445	1,368,047	26,771	1,807,545	31,216
Industrial and miscellaneous	2,231,905	92,378	201,000	1,509	2,432,905	93,887
Mortgage-backed securities	2,882,407	116,754	418,660	103,212	3,301,067	219,966
Redeemable preferred stock	-	-	467,840	19,660	467,840	19,660
Total fixed maturities	<u>6,251,468</u>	<u>214,688</u>	<u>2,455,547</u>	<u>151,152</u>	<u>8,707,015</u>	<u>365,840</u>
Perpetual preferred stock	850,560	90,840	-	-	850,560	90,840
Common stock	5,165,575	559,689	1,857,998	358,479	7,023,573	918,168
Total equities	<u>6,016,135</u>	<u>650,529</u>	<u>1,857,998</u>	<u>358,479</u>	<u>7,874,133</u>	<u>1,009,008</u>
Total:	<u>\$ 12,267,603</u>	<u>865,217</u>	<u>4,313,545</u>	<u>509,631</u>	<u>16,581,148</u>	<u>1,374,848</u>

	<u>Less than 12 months</u>		<u>Greater than 12 months</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>
<u>As of December 31, 2011</u>						
U.S. government and government agencies	\$ -	-	-	-	-	-
States, municipalities and political subdivisions	60,431	605	1,807,325	34,184	1,867,756	34,789
Industrial and miscellaneous	2,968,268	132,791	-	-	2,968,268	132,791
Mortgage-backed securities	6,059,765	234,085	498,060	105,155	6,557,825	339,240
Redeemable preferred stock	-	-	390,775	96,725	390,775	96,725
Total fixed maturities	<u>9,088,464</u>	<u>367,481</u>	<u>2,696,160</u>	<u>236,064</u>	<u>11,784,624</u>	<u>603,545</u>
Perpetual preferred stock	137,000	63,000	523,260	218,140	660,260	281,140
Common stock	4,877,388	1,359,792	688,400	172,125	5,565,788	1,531,917
Total equities	<u>5,014,388</u>	<u>1,422,792</u>	<u>1,211,660</u>	<u>390,265</u>	<u>6,226,048</u>	<u>1,813,057</u>
Total:	<u>\$ 14,102,852</u>	<u>1,790,273</u>	<u>3,907,820</u>	<u>626,329</u>	<u>18,010,672</u>	<u>2,416,602</u>

**ACMAT CORPORATION AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements (Unaudited)**

The following table summarizes, for all fixed maturities and equity securities reported at fair value for which fair value is less than 80% of amortized cost at March 31, 2012, the gross unrealized loss by length of time those securities have continuously been in an unrealized loss position in excess of 20% of amortized cost:

	Period For Which Fair Value is Less than 80% of Amortized Cost				Total
	3 Months or Less	Greater than 3 Months, Less than 6 Months	Greater than 6 Months, Less than 12 Months	Greater than 12 Months	
<u>As of March 31, 2012</u>					
Mortgage-backed securities	\$ -	-	-	69,415	69,415
Common stock	306,591	-	112,373	-	418,964
Total:	\$ 306,591	-	112,373	69,415	488,379

**(3) Fair Value Measurement**

The Company's estimates of fair value for financial assets and financial liabilities are based on a fair value hierarchy. The hierarchy is based on the inputs used in valuation and gives the highest priority to quoted prices in active markets, requiring that observable inputs be used in the valuations when available. The fair value 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 the 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. 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.

**ACMAT CORPORATION AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements (Unaudited)**

*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 of U.S. Treasury securities are included in the amount disclosed in Level 1 as the estimates are based on unadjusted market prices.

*Equity Securities*

For publicly-traded common stocks, the Company receives prices from a pricing service that are based on observable market transactions and includes these estimates in the amount disclosed in Level 1. Under certain circumstances, 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 fixed maturities. The Company includes the estimate in the amount disclosed in Level 2.

*Fair value Hierarchy*

The following tables present the level within the fair value hierarchy at which the Company's financial assets are measured on a recurring basis at March 31, 2012 and December 31, 2011.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>As of March 31, 2012</u>				
U.S. government and government agencies	\$ 4,231,864	-	-	4,231,864
States, municipalities and political subdivisions	-	23,329,763	-	23,329,763
Industrial and miscellaneous	-	10,077,721	-	10,077,721
Mortgage-backed securities	-	19,555,292	-	19,555,292
Redeemable preferred stock	-	1,876,922	-	1,876,922
Total fixed maturities	<u>4,231,864</u>	<u>54,839,698</u>	<u>-</u>	<u>59,071,562</u>
Perpetual preferred stock	-	2,242,181	-	2,242,181
Common stock	<u>8,669,169</u>	<u>-</u>	<u>-</u>	<u>8,669,169</u>
Total equities	<u>8,669,169</u>	<u>2,242,181</u>	<u>-</u>	<u>10,911,350</u>
Total:	<u>\$ 12,901,033</u>	<u>57,081,879</u>	<u>-</u>	<u>69,982,912</u>

**ACMAT CORPORATION AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements (Unaudited)**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>As of December 31, 2011</u>				
U.S. government and government agencies	\$ 4,030,523	-	-	4,030,523
States, municipalities and political subdivisions	-	23,057,066	-	23,057,066
Industrial and miscellaneous	-	9,009,671	-	9,009,671
Mortgage-backed securities	-	20,830,873	-	20,830,873
Redeemable preferred stock	-	1,578,911	-	1,578,911
	<u>4,030,523</u>	<u>54,476,521</u>	<u>-</u>	<u>58,507,044</u>
Total fixed maturities				
Perpetual preferred stock	-	2,024,160	-	2,024,160
Common stock	9,231,084	-	-	9,231,084
	<u>9,231,084</u>	<u>2,024,160</u>	<u>-</u>	<u>11,255,244</u>
Total equities				
Total:	<u>\$ 13,261,607</u>	<u>56,500,681</u>	<u>-</u>	<u>69,762,288</u>

There were no significant transfers between Level 1 and 2 or from level 3 in 2012 or 2011.

**(4) Earnings Per-Share**

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per-share computations for the three months ended March 31, 2012 and 2011:

	<u>Net Earnings</u>	<u>Average Shares Outstanding</u>	<u>Net Earnings Per-Share</u>
<u>Three months ended March 31, 2012</u>			
Basic earnings per-share	\$ 372,334	1,367,201	0.27
Effect of dilutive securities			
Stock options	-	115,271	(0.02)
	<u>372,334</u>	<u>1,482,472</u>	<u>0.25</u>
Diluted earnings per-share			
	<u>Net Earnings</u>	<u>Average Shares Outstanding</u>	<u>Net Earnings Per-Share</u>
<u>Three months ended March 31, 2011</u>			
Basic earnings per-share	\$ 306,564	1,367,201	0.22
Effect of dilutive securities			
Stock options	-	108,349	(0.01)
	<u>306,564</u>	<u>1,475,550</u>	<u>0.21</u>
Diluted earnings per-share			

**ACMAT CORPORATION AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements (Unaudited)**

**(5) 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, 2012 and 2011:

<u>Three Months Ended March 31,</u>	<u>2012</u>	<u>2011</u>
Unrealized holding gain arising during period, net of income taxes	\$ 1,229,564	86,569
Less: Reclassification adjustment for gains included in earnings, net of income taxes of \$161,122 and \$113,064 in 2012 and 2011, respectively	<u>312,767</u>	<u>219,478</u>
Changes included in comprehensive income:	<u>\$ 916,797</u>	<u>(132,909)</u>

**(6) Share-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 vests 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, 2012 there were 290,500 stock options outstanding of which all are vested. Share-based compensation expense of \$1,908 is reflected in net earnings for the first three months of 2011; there was no share-based compensation expense incurred in the first three months of 2012.