



ACMAT CORPORATION

ACMAT CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements

June 30, 2012

(Unaudited)

ACMAT CORPORATION AND SUBSIDIARIES
June 30, 2012

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ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets
As of June 30, 2012 and December 31, 2011

Assets	June 30, 2012 (Unaudited)	December 31, 2011
Investments:		
Fixed maturities (Amortized cost of \$52,914,702 in 2012 and \$57,470,706 in 2011)	\$ 54,155,988	58,507,044
Equity securities (Historical cost of \$14,602,886 in 2012 and \$12,439,035 in 2011)	13,669,276	11,255,244
Short-term investments, at cost which approximates fair value	4,137,136	6,654,516
Total investments	71,962,400	76,416,804
Cash and cash equivalents	8,093,222	9,968,438
Accrued interest receivable	469,982	500,296
Premiums receivable, net of allowance for doubtful accounts of \$48,266 in 2012 and 2011	360,407	424,358
Other receivables	408,650	497,427
Reinsurance recoverable:		
Unpaid losses	2,717,813	2,743,081
Paid losses	25,268	32,347
Prepaid expenses	272,578	71,716
Income taxes receivable	874,308	1,015,135
Deferred income taxes, net	775,460	1,108,753
Property and equipment, net	3,384,477	1,617,923
Deferred policy acquisition costs	171,106	186,858
Ceded unearned premiums	125,756	141,717
Other assets	1,090,547	801,422
Intangibles	1,920,360	1,920,360
Total assets	\$ 92,652,334	97,446,635
Liabilities and Stockholders' Equity		
Reserves for losses and loss adjustment expenses	\$ 16,929,923	17,506,782
Unearned premiums	1,146,150	1,241,007
Collateral held	26,478,293	28,500,822
Reinsurance premiums payable	65,642	57,266
Accounts payable and accrued liabilities	1,257,161	2,297,418
Long-term debt	7,928,571	7,142,857
Total liabilities	53,805,740	56,746,152
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; 843,647 shares issued and outstanding)	843,647	898,655
Retained earnings	37,331,335	39,430,816
Accumulated other comprehensive income (loss)	203,066	(97,534)
Total stockholders' equity	38,846,594	40,700,483
Total liabilities and stockholders' equity	\$ 92,652,334	97,446,635

See Notes to Consolidated Financial Statements (Unaudited)

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Earnings (Unaudited)
For the Three Months and Six Months Ended June 30, 2012 and 2011

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Revenues				
Premiums	\$ 518,133	648,498	1,113,238	1,258,455
Net investment income	680,714	681,390	1,358,498	1,325,280
Net realized capital gains	243,980	198,714	717,869	531,256
Fee and other income	70,018	35,704	158,671	131,642
Total revenues	<u>1,512,845</u>	<u>1,564,306</u>	<u>3,348,276</u>	<u>3,246,633</u>
Expenses				
Incurring losses and loss adjustment expenses	52,605	64,850	112,898	150,091
Amortization of deferred acquisition costs	89,654	94,746	195,045	155,103
General and administrative expenses	965,724	957,894	2,051,311	2,018,236
Interest expense	64,379	67,255	125,313	136,491
Total expenses	<u>1,172,362</u>	<u>1,184,745</u>	<u>2,484,567</u>	<u>2,459,921</u>
Earnings before income taxes	340,483	379,561	863,709	786,712
Provision for income taxes	64,951	95,795	215,843	196,382
Net earnings	<u>\$ 275,532</u>	<u>283,766</u>	<u>647,866</u>	<u>590,330</u>
Basic earnings per-share	\$ 0.20	\$ 0.21	\$ 0.48	\$ 0.43
Diluted earnings per-share	\$ 0.20	\$ 0.19	\$ 0.46	\$ 0.40

See Notes to Consolidated Financial Statements (Unaudited)

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income (Unaudited)
For the Three Months and Six Months Ended June 30, 2012 and 2011

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Net earnings	\$ 275,532	283,766	647,866	590,330
Change in net unrealized gains and losses on investment securities	(933,305)	105,472	455,455	(95,905)
Income tax (benefit) expense	(317,108)	35,860	154,855	(32,608)
Other comprehensive (loss) income, net of taxes	(616,197)	69,612	300,600	(63,297)
Comprehensive (loss) income	\$ (340,665)	353,378	948,466	527,033

See Notes to Consolidated Financial Statements (Unaudited)

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity (Unaudited)
For the Six Months Ended June 30, 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 (Loss)</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 (loss)					
Net unrealized losses on investment securities, net of reclassification	-	-	-	(63,297)	(63,297)
Net earnings	-	-	590,330	-	590,330
Total comprehensive income (loss)	-	-	590,330	(63,297)	527,033
Share-based compensation	-	-	3,816	-	3,816
Balance as of June 30, 2011	<u>\$ 468,546</u>	<u>898,655</u>	<u>38,787,471</u>	<u>602,436</u>	<u>40,757,108</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	-	-	-	300,600	300,600
Net earnings	-	-	647,866	-	647,866
Total comprehensive income	-	-	647,866	300,600	948,466
Acquisition and retirement of 143,508 shares of Class A Stock	-	(143,508)	(3,455,347)	-	(3,598,855)
Issuance of 88,500 shares of Class A Stock pursuant to stock options	-	88,500	708,000	-	796,500
Balance as of June 30, 2012	<u>\$ 468,546</u>	<u>843,647</u>	<u>37,331,335</u>	<u>203,066</u>	<u>38,846,594</u>

See Notes to Consolidated Financial Statements (Unaudited)

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Unaudited)
For the Six Months Ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Net earnings	\$ 647,866	590,330
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	224,689	325,025
Share-based compensation	-	3,816
Net realized capital gains	(717,869)	(531,256)
Deferred income tax expense	192,843	96,287
Changes in:		
Accrued interest receivable	30,314	43,023
Receivables	152,728	(42,756)
Reinsurance recoverable	32,347	2,458
Income taxes receivable	126,422	(94,941)
Deferred policy acquisition costs	15,752	(96,001)
Prepaid expenses and other assets	(489,340)	(64,769)
Reserves for losses and loss adjustment expenses	(576,859)	(1,577,518)
Unearned premiums, net	(78,896)	125,463
Collateral held	(2,022,529)	1,075,086
Reinsurance premiums payable	8,376	71,553
Accounts payable and accrued liabilities	(1,040,257)	(548,822)
Net cash used for operating activities	(3,494,413)	(623,022)
Cash flows from investing activities		
Proceeds from investments sold, matured or redeemed:		
Fixed maturities sold	1,089,776	8,340,715
Maturities and redemptions	11,792,146	1,830,000
Equity securities	17,419,619	5,573,611
Purchases of:		
Fixed maturities	(8,416,458)	(7,624,053)
Equity securities	(18,965,820)	(9,683,523)
Short-term investments, net	2,517,380	850,902
Sale of building, net of commission	-	2,732,570
Capital expenditures	(1,800,805)	(102,924)
Net cash used for investing activities	3,635,838	1,917,298
Cash flows from financing activities		
Additional borrowing under term loan facility, net	1,479,300	-
Repayments of long-term debt	(693,586)	(714,286)
Issuance of Class A shares pursuant to stock options	796,500	-
Acquisition and retirement of Class A shares	(3,598,855)	-
Net cash used in financing activities	(2,016,641)	(714,286)
Net change in cash and cash equivalents	(1,875,216)	579,990
Cash and cash equivalents, beginning of period	9,968,438	7,058,631
Cash and cash equivalents, end of period	\$ 8,093,222	7,638,621
<u>Supplemental disclosure of cash flows information:</u>		
Cash paid for income taxes	43,499	195,038
Cash paid for interest	125,313	136,491

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 was effective for the quarter ended March 31, 2012. The updated guidance results 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 June 30, 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 June 30, 2012</u>				
U.S. government and government agencies	\$ 4,014,671	329	(2,158)	4,012,842
States, municipalities and political subdivisions	22,032,558	1,031,642	(43,595)	23,020,605
Industrial and miscellaneous	10,102,738	166,463	(205,603)	10,063,598
Mortgage-backed securities	15,739,685	487,452	(200,095)	16,027,042
Redeemable preferred stock	1,025,050	9,676	(2,825)	1,031,901
Total fixed maturities	<u>52,914,702</u>	<u>1,695,562</u>	<u>(454,276)</u>	<u>54,155,988</u>
Perpetual preferred stock	3,227,877	159,823	(135,320)	3,252,380
Common stock	<u>11,375,009</u>	<u>483,657</u>	<u>(1,441,770)</u>	<u>10,416,896</u>
Total equities	<u>14,602,886</u>	<u>643,480</u>	<u>(1,577,090)</u>	<u>13,669,276</u>
Total:	<u>\$ 67,517,588</u>	<u>2,339,042</u>	<u>(2,031,366)</u>	<u>67,825,264</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	<u>10,211,158</u>	<u>551,843</u>	<u>(1,531,917)</u>	<u>9,231,084</u>
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 June 30, 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 June 30, 2012</u>						
U.S. government and government agencies	\$ 3,211,362	2,158	-	-	3,211,362	2,158
States, municipalities and political subdivisions	1,379,896	16,969	998,586	26,626	2,378,482	43,595
Industrial and miscellaneous	2,389,787	144,496	1,029,250	61,107	3,419,037	205,603
Mortgage-backed securities	2,390,625	84,189	713,191	115,906	3,103,816	200,095
Redeemable preferred stock			234,675	2,825	234,675	2,825
Total fixed maturities	<u>9,371,670</u>	<u>247,812</u>	<u>2,975,702</u>	<u>206,464</u>	<u>12,347,372</u>	<u>454,276</u>
Perpetual preferred stock	806,080	135,320	-	-	806,080	135,320
Common stock	4,649,600	571,726	3,117,770	870,044	7,767,370	1,441,770
Total equities	<u>5,455,680</u>	<u>707,046</u>	<u>3,117,770</u>	<u>870,044</u>	<u>8,573,450</u>	<u>1,577,090</u>
Total:	<u>\$ 14,827,350</u>	<u>954,858</u>	<u>6,093,472</u>	<u>1,076,508</u>	<u>20,920,822</u>	<u>2,031,366</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>						
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 June 30, 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 June 30, 2012</u>					
Mortgage-backed securities	\$ -	-	-	67,930	67,930
Preferred stock	67,200	-	-	-	67,200
Common stock	178,858	353,140	162,073	-	340,931
Total:	\$ 246,058	353,140	162,073	67,930	476,061

(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 June 30, 2012 and December 31, 2011.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>As of June 30, 2012</u>				
U.S. government and government agencies	\$ 4,012,842	-	-	4,012,842
States, municipalities and political subdivisions	-	23,020,605	-	23,020,605
Industrial and miscellaneous	-	10,063,598	-	10,063,598
Mortgage-backed securities	-	16,027,042	-	16,027,042
Redeemable preferred stock	-	1,031,901	-	1,031,901
Total fixed maturities	<u>4,012,842</u>	<u>50,143,146</u>	<u>-</u>	<u>54,155,988</u>
Perpetual preferred stock	-	3,252,380	-	3,252,380
Common stock	<u>10,416,896</u>	<u>-</u>	<u>-</u>	<u>10,416,896</u>
Total equities	<u>10,416,896</u>	<u>3,252,380</u>	<u>-</u>	<u>13,669,276</u>
Total:	<u>\$ 14,429,738</u>	<u>53,395,526</u>	<u>-</u>	<u>67,825,264</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 and six months periods ended June 30, 2012 and 2011:

	<u>2012</u>			<u>2011</u>		
	<u>Net Earnings</u>	<u>Average Shares Outstanding</u>	<u>Net Earnings Per-Share</u>	<u>Net Earnings</u>	<u>Average Shares Outstanding</u>	<u>Net Earnings Per-Share</u>
<u>Three Months Ended June 30,</u>						
Basic earnings per-share	\$ 275,532	1,353,921	0.20	283,766	1,367,201	0.21
Effect of dilutive securities						
Stock options	-	49,162	-	-	107,345	(0.02)
Diluted earnings per-share	<u>\$ 275,532</u>	<u>1,403,083</u>	<u>0.20</u>	<u>283,766</u>	<u>1,474,546</u>	<u>0.19</u>
	<u>2012</u>			<u>2011</u>		
	<u>Net Earnings</u>	<u>Average Shares Outstanding</u>	<u>Net Earnings Per-Share</u>	<u>Net Earnings</u>	<u>Average Shares Outstanding</u>	<u>Net Earnings Per-Share</u>
<u>Six Months Ended June 30,</u>						
Basic earnings per-share	\$ 647,866	1,353,921	0.48	590,330	1,367,201	0.43
Effect of dilutive securities						
Stock options	-	49,540	(0.02)	-	107,851	(0.03)
Diluted earnings per-share	<u>\$ 647,866</u>	<u>1,403,461</u>	<u>0.46</u>	<u>590,330</u>	<u>1,475,052</u>	<u>0.40</u>

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(5) Comprehensive Income

The following table summarizes reclassification adjustments for other comprehensive income (loss) and the related tax effects for the three months and six months periods ended June 30, 2012 and 2011:

<u>Three Months Ended June 30,</u>	<u>2012</u>	<u>2011</u>
Unrealized holding (loss) gain arising during period, net of income taxes	\$ (455,171)	200,763
Less: Reclassification adjustment for gains included in earnings, net of income taxes of \$82,954 and \$67,563 in 2012 and 2011, respectively	<u>161,026</u>	<u>131,151</u>
Changes included in comprehensive income:	<u>\$ (616,197)</u>	<u>69,612</u>
<u>Six Months Ended June 30,</u>	<u>2012</u>	<u>2011</u>
Unrealized holding gain arising during period, net of income taxes	\$ 774,394	287,332
Less: Reclassification adjustment for gains included in earnings, net of income taxes of \$244,075 and \$180,627 in 2012 and 2011, respectively	<u>473,794</u>	<u>350,629</u>
Changes included in comprehensive income:	<u>\$ 300,600</u>	<u>(63,297)</u>

(6) Share-Based Compensation

The Company periodically grants non-qualified stock options giving certain individuals the right to purchase restricted shares of the Company's Common Stock and Class A Stock. The majority of the options granted generally vest evenly over a five to ten year period and typically feature 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, 2012 there were 156,500 stock options outstanding of which all were vested. Share-based compensation expense of \$1,908 and \$3,618 is reflected in net earnings for the three months and six months periods ended June 30, 2011, respectively. There was no share-based compensation expense incurred in 2012. Total unrecognized compensation cost related to share-based incentive compensation awards as of June 30, 2012 and December 31, 2011 was zero.