



ACMAT CORPORATION

ACMAT CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements

March 31, 2013

(Unaudited)

ACMAT CORPORATION AND SUBSIDIARIES
March 31, 2013

TABLE OF CONTENTS

	<u>Page</u>
Consolidated Balance Sheets	3
Consolidated Statements of Earnings (Unaudited)	4
Consolidated Statements of Comprehensive Income (Unaudited)	5
Consolidated Statements of Stockholders' Equity (Unaudited)	6
Consolidated Statements of Cash Flows (Unaudited)	7
Notes to Consolidated Financial Statements (Unaudited)	8

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets
As of March 31, 2013 and December 31, 2012

	March 31,	December 31,
Assets	2013	2012
	<u>(Unaudited)</u>	<u></u>
Investments:		
Fixed maturities (Amortized cost of \$46,335,644 in 2013 and \$48,474,904 in 2012)	\$ 47,761,766	49,867,005
Equity securities (Historical cost of \$12,408,322 in 2013 and \$14,955,554 in 2012)	12,543,192	14,438,827
Short-term investments, at cost which approximates fair value	4,901,093	2,435,084
Total investments	<u>65,206,051</u>	<u>66,740,916</u>
Cash and cash equivalents	5,523,681	6,784,790
Accrued interest receivable	434,414	411,947
Premiums receivable, net of allowance for doubtful accounts of \$56,520 in 2013 and 2012	74,585	107,918
Other receivables	321,157	277,952
Reinsurance recoverable	1,866,262	1,858,971
Prepaid expenses	96,271	147,808
Deferred income taxes, net	213,015	526,289
Property and equipment, net	5,294,682	5,330,603
Deferred policy acquisition costs	117,357	126,622
Ceded unearned premiums	126,072	130,576
Other assets	2,323,268	1,404,202
Intangibles	1,920,360	1,920,360
Total assets	<u>\$ 83,517,175</u>	<u>85,768,954</u>
Liabilities and Stockholders' Equity		
Reserves for losses and loss adjustment expenses	\$ 15,394,002	15,417,199
Unearned premiums	860,345	893,373
Collateral held	22,705,320	24,907,307
Reinsurance premiums payable	50,455	60,233
Accounts payable and accrued liabilities	1,584,899	1,606,124
Long-term debt	6,857,143	7,214,286
Total liabilities	<u>47,452,164</u>	<u>50,098,522</u>
Common Stock (No par value; 3,500,000 shares authorized; 358,066 shares issued and outstanding)	358,066	367,306
Class A Stock (No par value; 10,000,000 shares authorized; 794,507 shares issued and outstanding)	794,507	798,647
Retained earnings	33,882,184	33,926,733
Accumulated other comprehensive income	1,030,254	577,746
Total stockholders' equity	<u>36,065,011</u>	<u>35,670,432</u>
Total liabilities and stockholders' equity	<u>\$ 83,517,175</u>	<u>85,768,954</u>

See Notes to Consolidated Financial Statements (Unaudited)

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Earnings (Unaudited)
For the Three Months Ended March 31, 2013 and 2012

	Three Months Ended	
	March 31,	
	2013	2012
Revenues		
Premiums	\$ 511,097	602,930
Net investment income	560,096	637,166
Net realized capital gains	364,948	473,889
Fee and other income	44,027	22,458
Total revenues	1,480,168	1,736,443
Expenses		
Incurred losses and loss adjustment expenses	51,110	60,293
Amortization of deferred acquisition costs	82,888	105,391
General and administrative expenses	898,100	986,599
Interest expense	56,356	60,934
Total expenses	1,088,454	1,213,217
Earnings before income taxes	391,714	523,226
Provision for income taxes	96,663	150,892
Net earnings	\$ 295,051	372,334
Basic earnings per-share	\$ 0.26	\$ 0.27
Diluted earnings per-share	\$ 0.24	\$ 0.25

See Notes to Consolidated Financial Statements (Unaudited)

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income (Unaudited)
For the Three Months Ended March 31, 2013 and 2012

	Three Months Ended	
	March 31,	
	<u>2013</u>	<u>2012</u>
Net earnings	\$ 295,051	372,334
Change in net unrealized gains and losses on investment securities	685,618	1,388,760
Income tax expense	<u>233,110</u>	<u>471,963</u>
Other comprehensive income, net of taxes	<u>452,508</u>	<u>916,797</u>
Comprehensive income	<u><u>\$ 747,559</u></u>	<u><u>1,289,131</u></u>

See Notes to Consolidated Financial Statements (Unaudited)

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity (Unaudited)
For the Three Months Ended March 31, 2013 and 2012

	<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, 2011	\$ 468,546	898,655	39,430,816	(97,534)	40,700,483
Comprehensive income					
Net unrealized losses on investment securities, net of reclassification	-	-	-	916,797	916,797
Net earnings	-	-	372,334	-	372,334
Total comprehensive income	-	-	372,334	916,797	1,289,131
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>
Balance as of December 31, 2012	\$ 367,306	798,647	33,926,733	577,746	35,670,432
Comprehensive income					
Net unrealized gains on investment securities, net of reclassification	-	-	-	452,508	452,508
Net earnings	-	-	295,051	-	295,051
Total comprehensive income	-	-	295,051	452,508	747,559
Acquisition and retirement of 4,140 shares of Class A Stock	-	(4,140)	(99,360)	-	(103,500)
Acquisition and retirement of 9,240 shares of Common Stock	(9,240)	-	(240,240)	-	(249,480)
Balance as of March 31, 2013	<u>\$ 358,066</u>	<u>794,507</u>	<u>33,882,184</u>	<u>1,030,254</u>	<u>36,065,011</u>

See Notes to Consolidated Financial Statements (Unaudited)

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Unaudited)
For the Three Months Ended March 31, 2013 and 2012

	2013	2012
Cash flows from operating activities		
Net earnings	\$ 295,051	372,334
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	94,919	112,221
Net realized capital gains	(394,676)	(473,889)
Deferred income tax expense	80,164	136,892
Changes in:		
Accrued interest receivable	(22,467)	(31,247)
Receivables	(9,872)	23,041
Reinsurance recoverable	(7,291)	1,699
Income taxes receivable	12,000	153,210
Deferred policy acquisition costs	9,265	29,768
Prepaid expenses and other assets	(867,529)	8,848
Reserves for losses and loss adjustment expenses	(23,197)	(485,023)
Unearned premiums, net	(28,524)	(164,829)
Collateral held	(2,201,987)	(751,881)
Reinsurance premiums payable	(9,778)	11,903
Accounts payable and accrued liabilities	(33,225)	(791,218)
Net cash used for operating activities	(3,107,147)	(1,848,171)
Cash flows from investing activities		
Proceeds from investments sold, matured or redeemed:		
Fixed maturities sold	1,530,335	-
Maturities and redemptions	3,401,787	3,161,226
Equity securities	19,484,014	13,209,582
Purchases of:		
Fixed maturities	(3,078,454)	(3,296,318)
Equity securities	(16,305,401)	(11,527,136)
Short-term investments, net	(2,466,009)	1,391,006
Capital expenditures	(10,111)	(723,136)
Net cash provided by investing activities	2,556,161	2,215,224
Cash flows from financing activities		
Repayments of long-term debt	(357,143)	(357,143)
Acquisition and retirement of common shares	(249,480)	-
Acquisition and retirement of Class A shares	(103,500)	-
Net cash used for financing activities	(710,123)	(357,143)
Net change in cash and cash equivalents	(1,261,109)	9,910
Cash and cash equivalents, beginning of period	6,784,790	7,058,631
Cash and cash equivalents, end of period	\$ 5,523,681	7,068,541
Supplemental disclosure of cash flows information:		
Cash paid for income taxes	4,500	38,499
Cash paid for interest	56,356	60,934

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, 2012.

Adoption of Accounting Standards Updates

Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income

In February 2013, the Financial Accounting Standards Board (FASB) issued updated guidance to improve the reporting of reclassifications out of accumulated other comprehensive income. The guidance requires an entity to present, either on the face of the statement of income or in the notes, separately for each component of comprehensive income, the current period reclassifications out of accumulated other comprehensive income by the respective line items of net income affected by the reclassification. The updated guidance is effective prospectively for reporting periods beginning after December 15, 2012. The Company adopted the updated guidance effective March 31, 2013, and such adoption did not have any effect on the Company's results of operations, financial position or liquidity.

Testing Indefinite-Lived Intangible Assets for Impairment

In July 2012, the FASB issued updated guidance regarding the impairment test applicable to indefinite-lived intangible assets that is similar to the impairment guidance applicable to goodwill. Under the updated guidance, an entity may assess qualitative factors (such as changes in management, key personnel, strategy, key technology or customers) that may impact the fair value of the indefinite-lived intangible asset and lead to the determination that it is more likely than not that the fair value of the asset is less than its carrying value. If an entity determines that it is more likely than not that the fair value of the intangible asset is less than its carrying value, an impairment test must be performed. The impairment test requires an entity to calculate the estimated fair value of the indefinite-lived intangible asset. If the carrying value of the indefinite-lived intangible asset exceeds its estimated fair value, an impairment loss is recognized in an amount equal to the excess. The Company adopted the guidance effective March 31, 2013, and such adoption of this guidance did not have any effect 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, 2013 and December 31, 2012 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, 2013</u>				
U.S. government and government agencies	\$ 4,918,383	22,367	4,566	4,936,184
States, municipalities and political subdivisions	21,181,383	962,953	69,840	22,074,496
Industrial and miscellaneous	6,644,271	304,830	3,929	6,945,172
Mortgage-backed securities	10,675,207	425,605	323,998	10,776,814
Redeemable preferred stock	2,916,400	114,700	2,000	3,029,100
Total fixed maturities	<u>46,335,644</u>	<u>1,830,455</u>	<u>404,333</u>	<u>47,761,766</u>
Perpetual preferred stock	2,292,877	162,069	-	2,454,946
Common stock	10,115,445	714,208	741,407	10,088,246
Total equities	<u>12,408,322</u>	<u>876,277</u>	<u>741,407</u>	<u>12,543,192</u>
Total:	<u>\$ 58,743,966</u>	<u>2,706,732</u>	<u>1,145,740</u>	<u>60,304,958</u>

	<u>Amortized Cost</u>	<u>Gross Unrealized</u>		<u>Fair Value</u>
		<u>Gains</u>	<u>Losses</u>	
<u>As of December 31, 2012</u>				
U.S. government and government agencies	\$ 4,015,893	1,718	118	4,017,493
States, municipalities and political subdivisions	21,079,689	974,260	78,457	21,975,492
Industrial and miscellaneous	8,596,722	330,213	44,324	8,882,611
Mortgage-backed securities	12,091,200	474,202	337,418	12,227,984
Redeemable preferred stock	2,691,400	82,855	10,830	2,763,425
Total fixed maturities	<u>48,474,904</u>	<u>1,863,248</u>	<u>471,147</u>	<u>49,867,005</u>
Perpetual preferred stock	1,692,877	116,689	-	1,809,566
Common stock	13,262,677	485,173	1,118,589	12,629,261
Total equities	<u>14,955,554</u>	<u>601,862</u>	<u>1,118,589</u>	<u>14,438,827</u>
Total:	<u>\$ 63,430,458</u>	<u>2,465,110</u>	<u>1,589,736</u>	<u>64,305,832</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, 2013 and December 31, 2012, 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, 2013</u>						
U.S. government and government agencies	\$ 140,584	4,566	-	-	140,584	4,566
States, municipalities and political subdivisions	3,435,032	69,840	-	-	3,435,032	69,840
Industrial and miscellaneous	1,088,875	3,929	-	-	1,088,875	3,929
Mortgage-backed securities	1,159,175	323,772	31,536	226	1,190,711	323,998
Redeemable preferred stock	123,000	2,000	-	-	123,000	2,000
Total fixed maturities	5,946,666	404,107	31,536	226	5,978,202	404,333
Common stock	4,452,619	577,649	1,593,700	163,758	6,046,319	741,407
Total:	\$ 10,399,285	981,756	1,625,236	163,984	12,024,521	1,145,740

	<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, 2012</u>						
U.S. government and government agencies	\$ 800,900	118	-	-	800,900	118
States, municipalities and political subdivisions	2,197,876	38,475	873,800	39,982	3,071,676	78,457
Industrial and miscellaneous	1,296,823	44,324	-	-	1,296,823	44,324
Mortgage-backed securities	1,185,911	332,470	167,796	4,948	1,353,707	337,418
Redeemable preferred stock	551,670	10,830	-	-	551,670	10,830
Total fixed maturities	6,033,180	426,217	1,041,596	44,930	7,074,776	471,147
Common stock	8,244,905	696,289	2,372,400	422,300	10,617,305	1,118,589
Total:	\$ 14,278,085	1,122,506	3,413,996	467,230	17,692,081	1,589,736

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, 2013, 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, 2013</u>					
Mortgage-backed securities	\$ -	220,087	-	57,463	277,550
Common stock	149,297	15,000	155,805	-	320,102
Total:	\$ 149,297	235,087	155,805	57,463	597,652

(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, 2013 and December 31, 2012.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>As of March 31, 2013</u>				
U.S. government and government agencies	\$ 4,936,184	-	-	4,936,184
States, municipalities and political subdivisions	-	22,074,496	-	22,074,496
Industrial and miscellaneous	-	6,945,172	-	6,945,172
Mortgage-backed securities	-	10,776,814	-	10,776,814
Redeemable preferred stock	-	3,029,100	-	3,029,100
Total fixed maturities	<u>4,936,184</u>	<u>42,825,582</u>	<u>-</u>	<u>47,761,766</u>
Perpetual preferred stock	-	2,454,946	-	2,454,946
Common stock	<u>10,088,246</u>	<u>-</u>	<u>-</u>	<u>10,088,246</u>
Total equities	<u>10,088,246</u>	<u>2,454,946</u>	<u>-</u>	<u>12,543,192</u>
Total:	<u>\$ 15,024,430</u>	<u>45,280,528</u>	<u>-</u>	<u>60,304,958</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, 2012</u>				
U.S. government and government agencies	\$ 4,017,493	-	-	4,017,493
States, municipalities and political subdivisions	-	21,975,492	-	21,975,492
Industrial and miscellaneous	-	8,882,611	-	8,882,611
Mortgage-backed securities	-	12,227,984	-	12,227,984
Redeemable preferred stock	-	2,763,425	-	2,763,425
	<u>4,017,493</u>	<u>45,849,512</u>	<u>-</u>	<u>49,867,005</u>
Total fixed maturities				
Perpetual preferred stock	-	1,809,566	-	1,809,566
Common stock	12,629,261	-	-	12,629,261
	<u>12,629,261</u>	<u>1,809,566</u>	<u>-</u>	<u>14,438,827</u>
Total equities				
Total:	<u>\$ 16,646,754</u>	<u>47,659,078</u>	<u>-</u>	<u>64,305,832</u>

There were no significant transfers between Level 1 and 2 or from level 3 in 2013 or 2012.

(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, 2013 and 2012:

	<u>Net Earnings</u>	<u>Average Shares Outstanding</u>	<u>Net Earnings Per-Share</u>
<u>Three months ended March 31, 2013</u>			
Basic earnings per-share	\$ 295,051	1,154,869	0.26
Effect of dilutive securities			
Stock options	-	63,357	(0.02)
Diluted earnings per-share	<u>\$ 295,051</u>	<u>1,218,226</u>	<u>0.24</u>
	<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)
Diluted earnings per-share	<u>\$ 372,334</u>	<u>1,482,472</u>	<u>0.25</u>

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

(5) Comprehensive Income

The following table presents the changes in the Company's accumulated other comprehensive income for the three months ended March 31, 2013 and 2012:

	2013		2012	
	Net Unrealized Gains and Losses	Total Accumulated Other Comprehensive Income	Net Unrealized Gains and Losses	Total Accumulated Other Comprehensive Income
Balance as of January 1:	\$ 577,746	577,746	(97,534)	(97,534)
Other comprehensive income before reclassifications to earnings, net	693,374	693,374	1,229,564	1,229,564
Reclassifications, net	240,866	240,866	312,767	312,767
Other comprehensive income, net of taxes	452,508	452,508	916,797	916,797
Balance as of March 31:	\$ <u>1,030,254</u>	<u>1,030,254</u>	<u>819,263</u>	<u>819,263</u>

The following table presents the pretax and related income tax expense component of the amounts reclassified from the Company's accumulated other comprehensive income to the Company's consolidated statement of earnings for the three months ended March 31, 2013 and 2012.

<u>Three Months Ended March 31:</u>	2013	2012
Net realized capital gains recognized in earnings	\$ 364,948	473,889
Income tax expense	124,082	161,122
Reclassifications, net	\$ <u>240,866</u>	<u>312,767</u>

The following table presents the pretax components of other comprehensive income and related income tax expense for the three months ended March 31, 2013 and 2012.

<u>Three Months Ended March 31:</u>	2013	2012
Unrealized holding gain arising during period, net of income taxes	\$ 693,374	1,229,564
Less: Reclassification adjustment for gains included in earnings, net of income taxes of \$124,082 and \$161,122 in 2013 and 2012, respectively	240,866	312,767
Changes included in comprehensive income:	\$ <u>452,508</u>	<u>916,797</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 March 31, 2013 there were 126,500 stock options outstanding of which all were vested. There was no share-based compensation expense incurred during the three months ended March 31, 2013 and 2012. There was no unrecognized compensation cost related to share-based incentive compensation awards at March 31, 2013 and December 31, 2012.

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

(7) Subsequent Events

In April 2013 the Company obtained a mortgage note for \$1.5 million in connection with the completion of a new headquarters in Farmington, CT. The note features a 10 year term and bears interest at a fixed rate of 3.47% for the first five years and resets thereafter.

There were no other subsequent events requiring adjustment to the consolidated financial statements or disclosure through May 13, 2013, the date the Company's consolidated financial statements were issued.