



ACMAT CORPORATION

**ACMAT CORPORATION AND SUBSIDIARIES**

Consolidated Financial Statements

June 30, 2013

(Unaudited)

**ACMAT CORPORATION AND SUBSIDIARIES**  
**June 30, 2013**

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**ACMAT CORPORATION AND SUBSIDIARIES**  
**Consolidated Balance Sheets**  
**As of June 30, 2013 and December 31, 2012**

	<b>June 30,</b>	<b>December 31,</b>
<b>Assets</b>	<b>2013</b>	<b>2012</b>
	<u>(Unaudited)</u>	<u></u>
Investments:		
Fixed maturities (Amortized cost of \$44,839,227 in 2013 and \$48,474,904 in 2012)	\$ 45,259,941	49,867,005
Equity securities (Historical cost of \$11,432,947 in 2013 and \$14,955,554 in 2012)	11,059,544	14,438,827
Short-term investments, at cost which approximates fair value	<u>7,805,040</u>	<u>2,435,084</u>
Total investments	<u>64,124,525</u>	<u>66,740,916</u>
Cash and cash equivalents	5,796,034	6,784,790
Accrued interest receivable	342,156	411,947
Premiums receivable, net of allowance for doubtful accounts of \$56,520 in 2013 and 2012	126,919	107,918
Other receivables	278,733	277,952
Reinsurance recoverable	1,874,744	1,858,971
Prepaid expenses	356,989	147,808
Income taxes receivable	120,804	-
Deferred income taxes, net	550,637	526,289
Property and equipment, net	5,288,594	5,330,603
Deferred policy acquisition costs	132,224	126,622
Ceded unearned premiums	141,657	130,576
Other assets	1,425,445	1,404,202
Intangibles	<u>1,920,360</u>	<u>1,920,360</u>
Total assets	<u>\$ 82,479,821</u>	<u>85,768,954</u>
<b>Liabilities and Stockholders' Equity</b>		
Reserves for losses and loss adjustment expenses	\$ 15,425,588	15,417,199
Unearned premiums	971,777	893,373
Collateral held	21,533,893	24,907,307
Reinsurance premiums payable	70,017	60,233
Accounts payable and accrued liabilities	1,281,097	1,606,124
Long-term debt	<u>7,987,500</u>	<u>7,214,286</u>
Total liabilities	<u>47,269,872</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	34,026,151	33,926,733
Accumulated other comprehensive income	<u>31,225</u>	<u>577,746</u>
Total stockholders' equity	<u>35,209,949</u>	<u>35,670,432</u>
Total liabilities and stockholders' equity	<u>\$ 82,479,821</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 and Six Months Ended June 30, 2013 and 2012**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
<b>Revenues</b>				
Premiums	\$ 493,305	518,133	1,004,402	1,113,238
Net investment income	538,526	680,714	1,098,622	1,358,498
Net realized capital gains	400,213	243,980	765,161	717,869
Fee and other income	112,915	70,018	156,942	158,671
Total revenues	<u>1,544,959</u>	<u>1,512,845</u>	<u>3,025,127</u>	<u>3,348,276</u>
<b>Expenses</b>				
Incurring losses and loss adjustment expenses	49,330	52,605	100,440	112,898
Amortization of deferred acquisition costs	80,289	89,654	163,177	195,045
General and administrative expenses	799,837	965,724	1,697,937	2,051,311
Interest expense	64,442	64,379	120,798	125,313
Total expenses	<u>993,898</u>	<u>1,172,362</u>	<u>2,082,352</u>	<u>2,484,567</u>
Earnings before income taxes	551,061	340,483	942,775	863,709
Provision for income taxes	184,294	64,951	280,957	215,843
Net earnings	<u>\$ 366,767</u>	<u>275,532</u>	<u>661,818</u>	<u>647,866</u>
Basic earnings per-share	\$ 0.32	\$ 0.20	\$ 0.57	\$ 0.48
Diluted earnings per-share	\$ 0.31	\$ 0.20	\$ 0.56	\$ 0.46

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, 2013 and 2012**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Net earnings	\$ 366,767	275,532	661,818	647,866
Change in unrealized gains and losses on investment securities	(1,513,680)	(933,305)	(828,062)	455,455
Income tax (benefit) expense	(514,651)	(317,108)	(281,541)	154,855
Other comprehensive (loss) income, net of taxes	(999,029)	(616,197)	(546,521)	300,600
Comprehensive (loss) income	\$ (632,262)	(340,665)	115,297	948,466

See Notes to Consolidated Financial Statements (Unaudited)

**ACMAT CORPORATION AND SUBSIDIARIES**  
**Consolidated Statements of Stockholders' Equity (Unaudited)**  
**For the Six Months Ended June 30, 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					
Change in net unrealized gains and losses 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
Issuance of 88,500 shares of Class A Stock pursuant to stock options	-	88,500	708,000	-	796,500
Acquisition and retirement of 143,508 shares of Class A Stock	-	(143,508)	(3,455,347)	-	(3,598,855)
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>
Balance as of December 31, 2012	\$ 367,306	798,647	33,926,733	577,746	35,670,432
Comprehensive income					
Change in net unrealized gains and losses on investment securities, net of reclassification	-	-	-	(546,521)	(546,521)
Net earnings	-	-	661,818	-	661,818
Total comprehensive income	-	-	661,818	(546,521)	115,297
Issuance of 25,000 shares of Class A Stock pursuant to stock options	-	25,000	295,950	-	320,950
Acquisition and retirement of 9,240 shares of Common Stock	(9,240)	-	(240,240)	-	(249,480)
Acquisition and retirement of 29,140 shares of Class A Stock	-	(29,140)	(618,110)	-	(647,250)
Balance as of June 30, 2013	<u>\$ 358,066</u>	<u>794,507</u>	<u>34,026,151</u>	<u>31,225</u>	<u>35,209,949</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, 2013 and 2012**

	<b>2013</b>	<b>2012</b>
<b>Cash flows from operating activities</b>		
Net earnings	\$ 661,818	647,866
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	177,484	224,689
Net realized capital gains	(765,161)	(717,869)
Deferred income tax expense	257,193	192,843
Changes in:		
Accrued interest receivable	69,791	30,314
Receivables	(19,782)	152,728
Reinsurance recoverable	(15,773)	32,347
Income taxes receivable	(130,685)	126,422
Deferred policy acquisition costs	(5,602)	15,752
Prepaid expenses and other assets	(230,424)	(489,340)
Reserves for losses and loss adjustment expenses	8,389	(576,859)
Unearned premiums, net	67,323	(78,896)
Collateral held	(3,373,414)	(2,022,529)
Reinsurance premiums payable	9,784	8,376
Accounts payable and accrued liabilities	(315,146)	(1,040,257)
Net cash used for operating activities	(3,604,205)	(3,494,413)
<b>Cash flows from investing activities</b>		
Proceeds from investments sold, matured or redeemed:		
Fixed maturities sold	4,073,473	1,089,776
Maturities and redemptions	4,306,319	11,792,146
Equity securities	35,569,526	17,419,619
Purchases of:		
Fixed maturities	(4,740,641)	(8,416,458)
Equity securities	(31,370,480)	(18,965,820)
Short-term investments, net	(5,369,956)	2,517,380
Capital expenditures	(50,226)	(1,800,805)
Net cash provided by investing activities	2,418,015	3,635,838
<b>Cash flows from financing activities</b>		
Funds borrowed	1,500,000	1,479,300
Repayments of long-term debt	(726,786)	(693,586)
Acquisition and retirement of common shares	(249,480)	-
Issuance of Class A shares pursuant to stock options	320,950	796,500
Acquisition and retirement of Class A shares	(647,250)	(3,598,855)
Net cash provided by (used in) financing activities	197,434	(2,016,641)
Net change in cash and cash equivalents	(988,756)	(1,875,216)
Cash and cash equivalents, beginning of period	6,784,790	9,968,438
Cash and cash equivalents, end of period	\$ 5,796,034	8,093,222
<u>Supplemental disclosure of cash flows information:</u>		
Cash paid for income taxes	146,304	43,499
Cash paid for interest	120,798	125,313

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.

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 earnings 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 June 30, 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 June 30, 2013</u>				
U.S. government and government agencies	\$ 4,016,510	1,488	134	4,017,864
States, municipalities and political subdivisions	21,666,390	558,881	358,638	21,866,633
Industrial and miscellaneous	6,279,720	200,487	47,049	6,433,158
Mortgage-backed securities	10,010,207	283,190	191,136	10,102,261
Redeemable preferred stock	2,866,400	46,340	72,715	2,840,025
Total fixed maturities	<u>44,839,227</u>	<u>1,090,386</u>	<u>669,672</u>	<u>45,259,941</u>
Perpetual preferred stock	2,117,877	65,023	16,260	2,166,640
Common stock	9,315,070	749,608	1,171,774	8,892,904
Total equities	<u>11,432,947</u>	<u>814,631</u>	<u>1,188,034</u>	<u>11,059,544</u>
Total:	<u>\$ 56,272,174</u>	<u>1,905,017</u>	<u>1,857,706</u>	<u>56,319,485</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 June 30, 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 June 30, 2013</u>						
U.S. government and government agencies	\$ 525,000	134	-	-	525,000	134
States, municipalities and political subdivisions	6,201,666	358,638	-	-	6,201,666	358,638
Industrial and miscellaneous	1,682,723	47,049	-	-	1,682,723	47,049
Mortgage-backed securities	2,685,962	167,861	133,921	23,275	2,819,883	191,136
Redeemable preferred stock	2,056,185	72,715	-	-	2,056,185	72,715
Total fixed maturities	13,151,536	646,397	133,921	23,275	13,285,457	669,672
Perpetual preferred stock	953,740	16,260	-	-	953,740	16,260
Common stock	5,344,800	841,026	1,465,137	330,748	6,809,937	1,171,774
Total:	\$ 19,450,076	1,503,683	1,599,058	354,023	21,049,134	1,857,706

	<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 June 30, 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 June 30, 2013</u>					
Common stock	\$ 454,925	-	152,237	-	607,162
Total:	\$ 454,925	-	152,237	-	607,162

**(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, 2013 and December 31, 2012.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>As of June 30, 2013</u>				
U.S. government and government agencies	\$ 4,017,864	-	-	4,017,864
States, municipalities and political subdivisions	-	21,866,633	-	21,866,633
Industrial and miscellaneous	-	6,433,158	-	6,433,158
Mortgage-backed securities	-	10,102,261	-	10,102,261
Redeemable preferred stock	-	2,840,025	-	2,840,025
Total fixed maturities	<u>4,017,864</u>	<u>41,242,077</u>	<u>-</u>	<u>45,259,941</u>
Perpetual preferred stock	-	2,166,640	-	2,166,640
Common stock	<u>8,892,904</u>	<u>-</u>	<u>-</u>	<u>8,892,904</u>
Total equities	<u>8,892,904</u>	<u>2,166,640</u>	<u>-</u>	<u>11,059,544</u>
Total:	<u>\$ 12,910,768</u>	<u>43,408,717</u>	<u>-</u>	<u>56,319,485</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 and six months periods ended June 30, 2013 and 2012:

	<u>2013</u>			<u>2012</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	\$ 366,767	1,152,573	0.32	275,532	1,353,921	0.20
Effect of dilutive securities						
Stock options	-	30,696	(0.01)	-	49,162	-
Diluted earnings per-share	<u>\$ 366,767</u>	<u>1,183,269</u>	<u>0.31</u>	<u>275,532</u>	<u>1,403,083</u>	<u>0.20</u>

	<u>2013</u>			<u>2012</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	\$ 661,818	1,153,715	0.57	647,866	1,353,921	0.48
Effect of dilutive securities						
Stock options	-	30,632	(0.01)	-	49,540	(0.02)
Diluted earnings per-share	<u>\$ 661,818</u>	<u>1,184,347</u>	<u>0.56</u>	<u>647,866</u>	<u>1,403,461</u>	<u>0.46</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 and six months ended June 30, 2013 and 2012:

	<u>2013</u>		<u>2012</u>	
	<u>Net Unrealized Gains and Losses</u>	<u>Total Accumulated Other Comprehensive Income</u>	<u>Net Unrealized Gains and Losses</u>	<u>Total Accumulated Other Comprehensive Income</u>
Balance as of April 1:	\$ 1,030,254	1,030,254	819,263	819,263
Other comprehensive income before reclassifications to earnings, net	(734,888)	(734,888)	(455,170)	(455,170)
Reclassifications, net	264,141	264,141	161,027	161,027
Other comprehensive income, net of taxes	(999,029)	(999,029)	(616,197)	(616,197)
Balance as of June 30:	<u>\$ 31,225</u>	<u>31,225</u>	<u>203,066</u>	<u>203,066</u>

	<u>2013</u>		<u>2012</u>	
	<u>Net Unrealized Gains and Losses</u>	<u>Total Accumulated Other Comprehensive Income</u>	<u>Net Unrealized Gains and Losses</u>	<u>Total Accumulated Other Comprehensive Income</u>
Balance as of January 1:	\$ 577,746	577,746	(97,534)	(97,534)
Other comprehensive income before reclassifications to earnings, net	(41,515)	(41,515)	774,394	774,394
Reclassifications, net	505,006	505,006	473,794	473,794
Other comprehensive income, net of taxes	(546,521)	(546,521)	300,600	300,600
Balance as of June 30:	<u>\$ 31,225</u>	<u>31,225</u>	<u>203,066</u>	<u>203,066</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 and six months ended June 30, 2013 and 2012.

<u>Three Months Ended June 30:</u>	<u>2013</u>	<u>2012</u>
Net realized capital gains recognized in earnings	\$ 400,213	243,980
Income tax expense	136,072	82,953
Reclassifications, net	<u>\$ 264,141</u>	<u>161,027</u>

**ACMAT CORPORATION AND SUBSIDIARIES**  
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<u>Six Months Ended June 30:</u>	<u>2013</u>	<u>2012</u>
Net realized capital gains recognized in earnings	\$ 765,161	717,869
Income tax expense	<u>260,155</u>	<u>244,075</u>
Reclassifications, net	<u>\$ 505,006</u>	<u>473,794</u>

The following table presents the pretax components of other comprehensive income and related income tax expense for the three months and six months ended June 30, 2013 and 2012.

<u>Three Months Ended June 30:</u>	<u>2013</u>	<u>2012</u>
Unrealized holding (loss) arising during period, net of income taxes	\$ (734,888)	(455,170)
Less: Reclassification adjustment for gains included in earnings, net of income taxes of \$136,072 and \$82,953 in 2013 and 2012, respectively	<u>264,141</u>	<u>161,027</u>
Changes included in comprehensive income:	<u>\$ (999,029)</u>	<u>(616,197)</u>

<u>Six Months Ended June 30:</u>	<u>2013</u>	<u>2012</u>
Unrealized holding (loss) gain arising during period, net of income taxes	\$ (41,515)	774,394
Less: Reclassification adjustment for gains included in earnings, net of income taxes of \$260,155 and \$244,075 in 2013 and 2012, respectively	<u>505,006</u>	<u>473,794</u>
Changes included in comprehensive income:	<u>\$ (546,521)</u>	<u>300,600</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, 2013 there were 101,500 stock options outstanding of which all were vested. There was no share-based compensation expense incurred in 2013 or 2012. There was no unrecognized compensation cost related to share-based incentive compensation awards as of June 30, 2013 or December 31, 2012.