



ACMAT CORPORATION

ACMAT CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements

September 30, 2013

(Unaudited)

ACMAT CORPORATION AND SUBSIDIARIES
September 30, 2013

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

	September 30,	December 31,
Assets	2013	2012
	<u>(Unaudited)</u>	<u></u>
Investments:		
Fixed maturities (Amortized cost of \$46,071,173 in 2013 and \$48,474,904 in 2012)	\$ 46,072,829	49,867,005
Equity securities (Historical cost of \$12,023,850 in 2013 and \$14,955,554 in 2012)	11,715,667	14,438,827
Short-term investments, at cost which approximates fair value	<u>6,576,402</u>	<u>2,435,084</u>
Total investments	<u>64,364,898</u>	<u>66,740,916</u>
Cash and cash equivalents	3,314,524	6,784,790
Accrued interest receivable	410,138	411,947
Premiums receivable, net of allowance for doubtful accounts of \$36,890 in 2013 and \$56,520 in 2012	73,593	107,918
Other receivables	267,667	277,952
Reinsurance recoverable	1,866,199	1,858,971
Prepaid expenses	312,868	147,808
Income taxes receivable	3,872	-
Deferred income taxes, net	868,144	526,289
Property and equipment, net	5,259,356	5,330,603
Deferred policy acquisition costs	118,887	126,622
Ceded unearned premiums	133,049	130,576
Other assets	667,436	1,404,202
Intangibles	<u>1,920,360</u>	<u>1,920,360</u>
Total assets	<u>\$ 79,580,991</u>	<u>85,768,954</u>
Liabilities and Stockholders' Equity		
Reserves for losses and loss adjustment expenses	\$ 15,363,780	15,417,199
Unearned premiums	912,995	893,373
Collateral held	20,521,476	24,907,307
Reinsurance premiums payable	40,902	60,233
Accounts payable and accrued liabilities	1,916,892	1,606,124
Long-term debt	<u>7,611,607</u>	<u>7,214,286</u>
Total liabilities	<u>46,367,652</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; 714,207 shares issued and outstanding)	714,207	798,647
Retained earnings	32,343,374	33,926,733
Accumulated other comprehensive (loss) income	<u>(202,308)</u>	<u>577,746</u>
Total stockholders' equity	<u>33,213,339</u>	<u>35,670,432</u>
Total liabilities and stockholders' equity	<u>\$ 79,580,991</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 Nine Months Ended September 30, 2013 and 2012

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues				
Premiums	\$ 557,847	676,630	1,562,249	1,805,615
Net investment income	562,379	605,996	1,661,001	1,964,494
Net realized capital gains	351,791	186,976	1,116,952	904,845
Fee and other income	48,868	28,050	205,810	170,974
Total revenues	<u>1,520,885</u>	<u>1,497,652</u>	<u>4,546,012</u>	<u>4,845,928</u>
Expenses				
Incurring losses and loss adjustment expenses	55,785	67,663	156,225	180,561
Amortization of deferred acquisition costs	82,474	108,887	245,651	303,932
General and administrative expenses	858,450	668,910	2,556,387	2,720,221
Interest expense	66,530	65,169	187,328	190,482
Total expenses	<u>1,063,239</u>	<u>910,629</u>	<u>3,145,591</u>	<u>3,395,196</u>
Earnings before income taxes	457,646	587,023	1,400,421	1,450,732
Provision for income taxes	110,663	195,121	391,620	410,964
Net earnings	<u>\$ 346,983</u>	<u>391,902</u>	<u>1,008,801</u>	<u>1,039,768</u>
Basic earnings per-share	\$ 0.32	\$ 0.30	\$ 0.89	\$ 0.78
Diluted earnings per-share	\$ 0.31	\$ 0.29	\$ 0.86	\$ 0.75

See Notes to Consolidated Financial Statements (Unaudited)

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income (Unaudited)
For the Three Months and Nine Months Ended September 30, 2013 and 2012

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Net earnings	\$ 346,983	391,902	1,008,801	1,039,768
Change in unrealized gains and losses on investment securities	(353,839)	895,798	(1,181,901)	1,351,253
Income tax (benefit) expense	(120,306)	304,571	(401,847)	459,426
Other comprehensive (loss) income, net of taxes	(233,533)	591,227	(780,054)	891,827
Comprehensive income	\$ 113,450	983,129	228,747	1,931,595

See Notes to Consolidated Financial Statements (Unaudited)

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity (Unaudited)
For the Nine Months Ended September 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	-	-	-	891,827	891,827
Net earnings	-	-	1,039,768	-	1,039,768
Total comprehensive income	-	-	1,039,768	891,827	1,931,595
Acquisition and retirement of 100 shares of Common Stock	(100)	-	(2,300)	-	(2,400)
Issuance of 88,500 shares of Class A Stock pursuant to stock options	-	88,500	708,000	-	796,500
Acquisition and retirement of 181,508 shares of Class A Stock	-	(181,508)	(4,374,686)	-	(4,556,194)
Balance as of September 30, 2012	<u>\$ 468,446</u>	<u>805,647</u>	<u>36,801,598</u>	<u>794,293</u>	<u>38,869,984</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	-	-	-	(780,054)	(780,054)
Net earnings	-	-	1,008,801	-	1,008,801
Total comprehensive income	-	-	1,008,801	(780,054)	228,747
Acquisition and retirement of 9,240 shares of Common Stock	(9,240)	-	(240,240)	-	(249,480)
Issuance of 25,000 shares of Class A Stock pursuant to stock options	-	25,000	295,950	-	320,950
Acquisition and retirement of 109,440 shares of Class A Stock	-	(109,440)	(2,647,870)	-	(2,757,310)
Balance as of September 30, 2013	<u>\$ 358,066</u>	<u>714,207</u>	<u>32,343,374</u>	<u>(202,308)</u>	<u>33,213,339</u>

See Notes to Consolidated Financial Statements (Unaudited)

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Unaudited)
For the Nine Months Ended September 30, 2013 and 2012

	2013	2012
Cash flows from operating activities		
Net earnings	\$ 1,008,801	1,039,768
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	251,604	369,458
Net realized capital gains	(1,116,952)	(904,845)
Deferred income tax expense	58,255	379,964
Changes in:		
Accrued interest receivable	1,809	15,292
Receivables	44,610	484,160
Reinsurance recoverable	(7,228)	(19,693)
Income taxes receivable	(13,753)	927,600
Deferred policy acquisition costs	7,735	45,172
Prepaid expenses and other assets	571,706	(598,664)
Reserves for losses and loss adjustment expenses	(53,419)	(554,857)
Unearned premiums, net	17,149	(229,815)
Collateral held	(4,385,831)	(2,988,961)
Reinsurance premiums payable	(19,331)	13,842
Accounts payable and accrued liabilities	320,649	(460,866)
Net cash used for operating activities	(3,314,196)	(2,482,445)
Cash flows from investing activities		
Proceeds from investments sold, matured or redeemed:		
Fixed maturities sold	6,623,225	1,555,676
Maturities and redemptions	9,520,790	15,992,139
Equity securities	59,021,093	25,056,386
Purchases of:		
Fixed maturities	(12,934,697)	(11,440,279)
Equity securities	(55,889,680)	(25,352,429)
Short-term investments, net	(4,141,318)	71,886
Capital expenditures	(66,964)	(3,204,634)
Net cash provided by investing activities	2,132,449	2,678,745
Cash flows from financing activities		
Funds borrowed	1,500,000	1,479,300
Repayments of long-term debt	(1,102,679)	(1,050,728)
Acquisition and retirement of common shares	(249,480)	(2,400)
Issuance of Class A shares pursuant to stock options	320,950	796,500
Acquisition and retirement of Class A shares	(2,757,310)	(4,556,194)
Net cash used for financing activities	(2,288,519)	(3,333,522)
Net change in cash and cash equivalents	(3,470,266)	(3,137,222)
Cash and cash equivalents, beginning of period	6,784,790	9,968,438
Cash and cash equivalents, end of period	\$ 3,314,524	6,831,216
<u>Supplemental disclosure of cash flows information:</u>		
Cash paid for (recovered from) income taxes	347,118	(928,527)
Cash paid for interest	187,328	190,482

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 September 30, 2013 and December 31, 2012 were as follows:

	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
<u>As of September 30, 2013</u>				
U.S. government and government agencies	\$ 4,084,293	390	1,610	4,083,073
States, municipalities and political subdivisions	24,007,607	516,199	543,683	23,980,123
Industrial and miscellaneous	5,568,544	196,784	49,967	5,715,361
Mortgage-backed securities	8,999,329	263,494	113,651	9,149,172
Redeemable preferred stock	3,411,400	44,760	311,060	3,145,100
Total fixed maturities	46,071,173	1,021,627	1,019,971	46,072,829
Perpetual preferred stock	1,497,877	8,563	59,340	1,447,100
Common stock	10,525,973	715,684	973,090	10,268,567
Total equity securities	12,023,850	724,247	1,032,430	11,715,667
Total	\$ 58,095,023	1,745,874	2,052,401	57,788,496

	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
<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	48,474,904	1,863,248	471,147	49,867,005
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 equity securities	14,955,554	601,862	1,118,589	14,438,827
Total	\$ 63,430,458	2,465,110	1,589,736	64,305,832

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Notes to Consolidated Financial Statements (Unaudited)

The following tables summarize, for all investments in an unrealized loss position at September 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:

	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<u>As of September 30, 2013</u>						
U.S. government and government agencies	\$ 3,595,658	1,610	-	-	3,597,268	1,610
States, municipalities and political subdivisions	8,848,167	509,821	545,780	33,862	9,357,988	543,683
Industrial and miscellaneous	1,097,145	49,967	-	-	1,147,112	49,967
Mortgage-backed securities	2,348,904	83,127	322,427	30,524	2,432,031	113,651
Redeemable preferred stock	2,253,140	283,260	97,200	27,800	2,536,400	311,060
Total fixed maturities	18,143,014	927,785	965,407	92,186	19,070,799	1,019,971
Perpetual preferred stock	740,660	59,340	-	-	800,000	59,340
Common stock	7,061,202	846,102	1,096,300	126,988	7,907,304	973,090
Total equity securities	7,801,862	905,442	1,096,300	126,988	8,707,304	1,032,430
Total	\$ 25,944,876	1,833,227	2,061,707	219,174	27,778,103	2,052,401

	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<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	6,459,397	471,147
Common stock	8,244,905	696,289	2,372,400	422,300	10,617,305	1,118,589
Total equity securities	8,244,905	696,289	2,372,400	422,300	8,941,194	1,118,589
Total	\$ 14,278,085	1,122,506	3,413,996	467,230	15,400,591	1,589,736

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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 September 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 September 30, 2013</u>					
States, municipalities and political subdivisions	\$ 66,125	-	-	-	66,125
Redeemable preferred stock	27,800	-	-	-	27,800
Common stock	366,384	-	-	35,173	401,557
Total:	\$ 460,309	-	-	35,173	495,482

(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,

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which, depending on the level of observable market inputs, will render the fair value estimate as Level 2 or Level 3. The Company bases all of its estimates of fair value for assets on the bid price as it represents what a third party market participant would be willing to pay in an arm's length transaction. The following section describes the valuation methods used by the Company for each type of financial instrument it holds that is carried at fair value.

Fixed Maturities

The Company utilizes a pricing service to estimate fair value measurements for all of its fixed maturities. The pricing service utilizes market quotations for fixed maturity securities that have quoted prices in active markets. Since fixed maturities other than U.S. Treasury securities generally do not trade on a daily basis, the pricing service prepares estimates of fair value measurements for these securities using its proprietary pricing applications which include available relevant market information, benchmark curves, benchmarking of like securities, sector groupings and matrix pricing.

The fair value estimates of most fixed maturity investments are based on observable market information rather than market quotes. Accordingly, the estimates of fair value for such fixed maturities, other than U.S. Treasury securities, provided by the pricing service are included in the amount disclosed in Level 2 of the hierarchy. The estimated fair value 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 September 30, 2013 and December 31, 2012.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>As of September 30, 2013</u>				
U.S. government and government agencies	\$ 4,083,073	-	-	4,083,073
States, municipalities and political subdivisions	-	23,980,123	-	23,980,123
Industrial and miscellaneous	-	5,715,361	-	5,715,361
Mortgage-backed securities	-	9,149,172	-	9,149,172
Redeemable preferred stock	-	3,145,100	-	3,145,100
Total fixed maturities	<u>4,083,073</u>	<u>41,989,756</u>	<u>-</u>	<u>46,072,829</u>
Perpetual preferred stock	-	1,447,100	-	1,447,100
Common stock	<u>10,268,567</u>	<u>-</u>	<u>-</u>	<u>10,268,567</u>
Total equity securities	<u>10,268,567</u>	<u>1,447,100</u>	<u>-</u>	<u>11,715,667</u>
Total	<u>\$ 14,351,640</u>	<u>43,436,856</u>	<u>-</u>	<u>57,788,496</u>

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	Level 1	Level 2	Level 3	Total
<u>As of December 31, 2012</u>				
U.S. government and government agencies	\$ 4,083,073	-	-	4,083,073
States, municipalities and political subdivisions	-	23,980,123	-	23,980,123
Industrial and miscellaneous	-	5,715,361	-	5,715,361
Mortgage-backed securities	-	9,149,172	-	9,149,172
Redeemable preferred stock	-	3,145,100	-	3,145,100
 Total fixed maturities	 4,083,073	 41,989,756	 -	 46,072,829
Perpetual preferred stock	-	1,447,100	-	1,447,100
Common stock	10,268,567	-	-	10,268,567
 Total equity securities	 10,268,567	 1,447,100	 -	 11,715,667
 Total	 \$ 14,351,640	 43,436,856	 -	 57,788,496

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 nine months periods ended September 30, 2013 and 2012:

	2013			2012		
	Net Earnings	Weighted Average Shares Outstanding	Net Earnings Per Share	Net Earnings	Weighted Average Shares Outstanding	Net Earnings Per Share
<u>Three Months Ended September 30,</u>						
Basic earnings per share	\$ 346,983	1,099,496	0.32	391,902	1,299,702	0.30
Effect of dilutive securities						
Stock options	-	33,018	(0.01)	-	46,932	(0.01)
Diluted earnings per share	\$ 346,983	1,132,514	0.31	391,902	1,346,634	0.29
	2013			2012		
	Net Earnings	Weighted Average Shares Outstanding	Net Earnings Per Share	Net Earnings	Weighted Average Shares Outstanding	Net Earnings Per Share
<u>Nine Months Ended September 30,</u>						
Basic earnings per share	\$ 1,008,801	1,135,443	0.89	1,039,768	1,335,716	0.78
Effect of dilutive securities						
Stock options	-	31,478	(0.03)	-	48,734	(0.03)
Diluted earnings per share	\$ 1,008,801	1,166,921	0.86	1,039,768	1,384,450	0.75

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(5) Comprehensive Income

The following table presents the changes in the Company's accumulated other comprehensive (loss) income for the three months and nine months ended September 30, 2013 and 2012:

	2013		2012	
	Net Unrealized Gains and Losses	Total Accumulated Other Comprehensive (Loss) Income	Net Unrealized Gains and Losses	Total Accumulated Other Comprehensive Income
Balance as of July 1	\$ 31,225	31,225	203,066	203,066
Other comprehensive (loss) income before reclassifications to earnings, net	(1,351)	(1,351)	714,631	714,631
Reclassifications, net	232,182	232,182	123,404	123,404
Other comprehensive (loss) income, net of taxes	(233,533)	(233,533)	591,227	591,227
Balance as of September 30, 2013	<u>\$ (202,308)</u>	<u>(202,308)</u>	<u>794,293</u>	<u>794,293</u>

	2013		2012	
	Net Unrealized Gains and Losses	Total Accumulated Other Comprehensive (Loss) 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 (loss) income before reclassifications to earnings, net	(42,866)	(42,866)	1,489,025	1,489,025
Reclassifications, net	737,188	737,188	597,198	597,198
Other comprehensive (loss) income, net of taxes	(780,054)	(780,054)	891,827	891,827
Balance as of September 30, 2013	<u>\$ (202,308)</u>	<u>(202,308)</u>	<u>794,293</u>	<u>794,293</u>

The following table presents the pretax and related income tax expense component of the amounts reclassified from the Company's accumulated other comprehensive (loss) income to the Company's consolidated statement of earnings for the three months and nine months ended September 30, 2013 and 2012.

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
	Net realized capital gains recognized in earnings	\$ 351,791	186,976	1,116,952
Income tax expense	119,609	63,572	379,764	307,647
Reclassifications, net	<u>\$ 232,182</u>	<u>123,404</u>	<u>737,188</u>	<u>597,198</u>

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

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2013	2012	2013	2012
Unrealized holding (loss) gain arising during the period, net of income taxes	\$ (1,351)	714,631	(42,866)	1,489,025
Less: Reclassification adjustment for gains included in earnings, net of income taxes	232,182	123,404	737,188	597,198
Changes included in comprehensive income	\$ (233,533)	591,227	(780,054)	891,827

(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 September 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 September 30, 2013 or December 31, 2012.