



ACMAT CORPORATION

ACMAT CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements

June 30, 2014

(Unaudited)

ACMAT CORPORATION AND SUBSIDIARIES
June 30, 2014

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ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets
As of June 30, 2014 and December 31, 2013

Assets	June 30, 2014 (Unaudited)	December 31, 2013
Investments:		
Fixed maturities (Amortized cost of \$44,080,680 in 2014 and \$46,228,204 in 2013)	\$ 45,267,255	46,004,644
Equity securities (Historical cost of \$8,235,195 in 2014 and \$10,628,670 in 2013)	8,445,395	10,758,399
Short-term investments, at cost which approximates fair value	9,031,448	3,283,481
Total investments	<u>62,744,098</u>	<u>60,046,524</u>
Cash and cash equivalents	3,459,365	5,480,724
Accrued interest receivable	332,200	383,463
Premiums receivable, net of allowance for doubtful accounts of \$30,305 as of June 30, 2014 and \$28,305 as of December 31, 2013	210,988	93,907
Other receivables	177,374	251,993
Reinsurance recoverable	1,896,070	1,879,684
Prepaid expenses	262,724	126,626
Income taxes receivable	396,485	317,912
Deferred income taxes, net	12,963	578,883
Property and equipment, net	5,208,963	5,262,125
Deferred policy acquisition costs	101,522	108,318
Ceded unearned premiums	109,933	119,053
Other assets	769,569	1,083,928
Intangibles	1,920,360	1,920,360
Total assets	<u>\$ 77,602,614</u>	<u>77,653,500</u>
Liabilities and Stockholders' Equity		
Reserves for losses and loss adjustment expenses	\$ 15,290,902	15,399,806
Unearned premiums	754,767	817,140
Collateral held	19,184,131	19,341,931
Reinsurance premiums payable	32,523	51,353
Accounts payable and accrued liabilities	1,169,371	1,511,325
Long-term debt	6,483,929	7,235,714
Total liabilities	<u>42,915,623</u>	<u>44,357,269</u>
Common Stock (No par value; 3,500,000 shares authorized; 357,966 shares issued and outstanding)	357,966	358,066
Class A Stock (No par value; 10,000,000 shares authorized; 714,207 shares issued and outstanding)	714,207	714,207
Retained earnings	32,692,946	32,285,886
Accumulated other comprehensive income (loss)	921,872	(61,928)
Total stockholders' equity	<u>34,686,991</u>	<u>33,296,231</u>
Total liabilities and stockholders' equity	<u>\$ 77,602,614</u>	<u>77,653,500</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, 2014 and 2013

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Revenues				
Premiums	\$ 471,398	493,305	961,314	1,004,402
Net investment income	562,374	538,526	1,101,569	1,098,622
Net realized capital gains	403,008	400,213	692,210	765,161
Fee and other income	17,449	112,915	70,919	156,942
Total revenues	<u>1,454,229</u>	<u>1,544,959</u>	<u>2,826,012</u>	<u>3,025,127</u>
Expenses				
Incurring losses and loss adjustment expenses	47,139	49,330	96,131	100,440
Amortization of deferred acquisition costs	70,581	80,289	149,917	163,177
General and administrative expenses	949,499	799,837	1,753,988	1,697,937
Interest expense	58,244	64,442	119,254	120,798
Total expenses	<u>1,125,463</u>	<u>993,898</u>	<u>2,119,290</u>	<u>2,082,352</u>
Earnings before income taxes	328,766	551,061	706,722	942,775
Provision for income taxes	63,346	184,294	173,593	280,957
Net earnings	<u>\$ 265,420</u>	<u>366,767</u>	<u>533,129</u>	<u>661,818</u>
Basic earnings per-share	\$ 0.25	\$ 0.32	\$ 0.50	\$ 0.57
Diluted earnings per-share	\$ 0.24	\$ 0.31	\$ 0.49	\$ 0.56

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, 2014 and 2013

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Net earnings	\$ 265,420	366,767	533,129	661,818
Change in unrealized gains and losses on investment securities	596,903	(1,513,680)	1,490,606	(828,062)
Income tax expense (benefit)	202,947	(514,651)	506,806	(281,541)
Other comprehensive income (loss), net of taxes	393,956	(999,029)	983,800	(546,521)
Comprehensive income (loss)	\$ 659,376	(632,262)	1,516,929	115,297

See Notes to Consolidated Financial Statements (Unaudited)

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity (Unaudited)
For the Six Months Ended June 30, 2014 and 2013

	<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, 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>
Balance as of December 31, 2013	\$ 358,066	714,207	32,285,886	(61,928)	33,296,231
Comprehensive income					
Change in net unrealized gains and losses on investment securities, net of reclassification	-	-	-	983,800	983,800
Net earnings	-	-	533,129	-	533,129
Total comprehensive income	-	-	533,129	983,800	1,516,929
Excess benefit from stock options exercised	-	-	164,841	-	164,841
Acquisition and retirement of 100 shares of Common Stock	(100)	-	(2,400)	-	(2,500)
Issuance of 29,500 shares of Class A Stock pursuant to stock options	-	29,500	330,990	-	360,490
Acquisition and retirement of 29,500 shares of Class A Stock	-	(29,500)	(619,500)	-	(649,000)
Balance as of June 30, 2014	<u>\$ 357,966</u>	<u>714,207</u>	<u>32,692,946</u>	<u>921,872</u>	<u>34,686,991</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, 2014 and 2013

	2014	2013
Cash flows from operating activities		
Net earnings	\$ 533,129	661,818
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	122,692	177,484
Net realized capital gains	(692,210)	(765,161)
Deferred income tax expense	60,912	257,193
Changes in:		
Accrued interest receivable	51,263	69,791
Receivables	(42,462)	(19,782)
Reinsurance recoverable	(16,386)	(15,773)
Income taxes receivable	(80,374)	(130,685)
Deferred policy acquisition costs	6,796	(5,602)
Prepaid expenses and other assets	178,261	(230,424)
Reserves for losses and loss adjustment expenses	(108,904)	8,389
Unearned premiums, net	(53,253)	67,323
Collateral held	(157,800)	(3,373,414)
Reinsurance premiums payable	(18,830)	9,784
Accounts payable and accrued liabilities	(341,954)	(315,146)
Net cash used for operating activities	(559,120)	(3,604,205)
Cash flows from investing activities		
Proceeds from investments sold, matured or redeemed:		
Fixed maturities sold	1,188,571	4,073,473
Maturities and redemptions	4,202,667	4,306,319
Equity securities	36,988,701	35,569,526
Purchases of:		
Fixed maturities	(3,322,151)	(4,740,641)
Equity securities	(33,852,763)	(31,370,480)
Short-term investments, net	(5,747,967)	(5,369,956)
Capital expenditures	(41,343)	(50,226)
Net cash (used for) provided by investing activities	(584,285)	2,418,015
Cash flows from financing activities		
Funds borrowed	-	1,500,000
Repayments of long-term debt	(751,785)	(726,786)
Excess tax benefit realized pursuant to stock options exercised	164,841	-
Acquisition and retirement of common shares	(2,500)	(249,480)
Issuance of Class A shares pursuant to stock options	360,490	320,950
Acquisition and retirement of Class A shares	(649,000)	(647,250)
Net cash (used for) provided by financing activities	(877,954)	197,434
Net change in cash and cash equivalents	(2,021,359)	(988,756)
Cash and cash equivalents, beginning of period	5,480,724	6,784,790
Cash and cash equivalents, end of period	\$ 3,459,365	5,796,034
<u>Supplemental disclosure of cash flows information:</u>		
Cash paid for income taxes	26,413	146,304
Cash paid for interest	100,247	120,798

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, 2013.

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.

(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, 2014 and December 31, 2013 were as follows:

	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
<u>As of June 30, 2014</u>				
U.S. government and government agencies	\$ 4,064,329	5,893	107	4,070,115
States, municipalities and political subdivisions	23,507,464	919,592	175,505	24,251,551
Industrial and miscellaneous	5,444,327	263,964	6,363	5,701,928
Mortgage-backed securities	7,565,660	237,503	104,180	7,698,983
Redeemable preferred stock	3,498,900	105,096	59,318	3,544,678
Total fixed maturities	44,080,680	1,532,048	345,473	45,267,255
Perpetual preferred stock	1,597,877	54,103	9,280	1,642,700
Common stock	6,637,318	789,648	624,271	6,802,695
Total equity securities	8,235,195	843,751	633,551	8,445,395
Total	\$ 52,315,875	2,375,799	979,024	53,712,650

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

	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
<u>As of December 31, 2013</u>				
U.S. government and government agencies	\$ 4,075,931	192	1,032	4,075,091
States, municipalities and political subdivisions	25,418,740	470,833	635,598	25,253,975
Industrial and miscellaneous	6,199,390	207,493	25,194	6,381,689
Mortgage-backed securities	7,122,744	221,818	139,435	7,205,127
Redeemable preferred stock	3,411,399	52,864	375,501	3,088,762
Total fixed maturities	46,228,204	953,200	1,176,760	46,004,644
Perpetual preferred stock	1,547,877	17,463	78,520	1,486,820
Common stock	9,080,793	934,655	743,869	9,271,579
Total equity securities	10,628,670	952,118	822,389	10,758,399
Total	\$ 56,856,874	1,905,318	1,999,149	56,763,043

The following tables summarize, for all investments in an unrealized loss position at June 30, 2014 and December 31, 2013, 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 June 30, 2014</u>						
U.S. government and government agencies	\$ 280,030	107	-	-	280,030	107
States, municipalities and political subdivisions	1,351,976	11,887	3,749,032	163,618	5,101,008	175,505
Industrial and miscellaneous	607,391	6,363	-	-	607,391	6,363
Mortgage-backed securities	1,093,261	21,254	538,881	82,926	1,632,142	104,180
Redeemable preferred stock	-	-	1,928,182	59,318	1,928,182	59,318
Total fixed maturities	3,332,658	39,611	6,216,095	305,862	9,548,753	345,473
Perpetual preferred stock	-	-	190,720	9,280	190,720	9,280
Common stock	2,438,600	236,571	1,516,094	387,700	3,954,694	624,271
Total equity securities	2,438,600	236,571	1,706,814	396,980	4,145,414	633,551
Total	\$ 5,771,258	276,182	7,922,909	702,842	13,694,167	979,024

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

	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, 2013</u>						
U.S. government and government agencies	\$ 3,587,892	1,032	-	-	3,587,892	1,032
States, municipalities and political subdivisions	9,464,623	488,304	1,326,868	147,294	10,791,491	635,598
Industrial and miscellaneous	1,129,083	25,194	-	-	1,129,083	25,194
Mortgage-backed securities	1,009,798	49,042	465,630	90,393	1,475,428	139,435
Redeemable preferred stock	2,028,398	345,501	95,000	30,000	2,123,398	375,501
Total fixed maturities	17,219,794	909,073	1,887,498	267,687	19,107,292	1,176,760
Perpetual preferred stock	721,480	78,520	-	-	721,480	78,520
Common stock	4,794,952	556,852	1,225,153	187,017	6,020,105	743,869
Total equity securities	5,516,432	635,372	1,225,153	187,017	6,741,585	822,389
Total	\$ 22,736,226	1,544,445	3,112,651	454,704	25,848,877	1,999,149

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, 2014, 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, 2014</u>					
States, municipalities and political subdivisions	\$ 21,702	-	-	-	21,702
Mortgage-backed securities	-	-	30,346	23,749	54,095
Common stock	275,661	34,199	89,339	-	399,199
Total:	\$ 297,363	34,199	119,685	23,749	474,996

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

(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.

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.

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

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, 2014 and December 31, 2013.

	Level 1	Level 2	Level 3	Total
<u>As of June 30, 2014</u>				
U.S. government and government agencies	\$ 4,070,113	-	-	4,070,113
States, municipalities and political subdivisions	-	24,251,551	-	24,251,551
Industrial and miscellaneous	-	5,701,928	-	5,701,928
Mortgage-backed securities	-	7,698,985	-	7,698,985
Redeemable preferred stock	-	3,544,678	-	3,544,678
Total fixed maturities	4,070,113	41,197,142	-	45,267,255
Perpetual preferred stock	-	1,642,700	-	1,642,700
Common stock	6,802,695	-	-	6,802,695
Total equity securities	6,802,695	1,642,700	-	8,445,395
Total	\$ 10,872,808	42,839,842	-	53,712,650

	Level 1	Level 2	Level 3	Total
<u>As of December 31, 2013</u>				
U.S. government and government agencies	\$ 4,075,091	-	-	4,075,091
States, municipalities and political subdivisions	-	25,253,975	-	25,253,975
Industrial and miscellaneous	-	6,381,689	-	6,381,689
Mortgage-backed securities	-	7,205,127	-	7,205,127
Redeemable preferred stock	-	3,088,762	-	3,088,762
Total fixed maturities	4,075,091	41,929,553	-	46,004,644
Perpetual preferred stock	-	1,486,820	-	1,486,820
Common stock	9,271,579	-	-	9,271,579
Total equity securities	9,271,579	1,486,820	-	10,758,399
Total	\$ 13,346,670	43,416,373	-	56,763,043

There were no significant transfers between Level 1 and 2 or from level 3 in 2014 or 2013.

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

(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 ended June 30, 2014 and 2013:

	2014			2013		
	Net Earnings	Weighted Average Shares Outstanding	Net Earnings Per Share	Net Earnings	Weighted Average Shares Outstanding	Net Earnings Per Share
<u>Three Months Ended June 30,</u>						
Basic earnings per share	\$ 265,420	1,072,179	0.25	366,767	1,152,573	0.32
Effect of dilutive securities						
Stock options	-	12,360	(0.01)	-	30,696	(0.01)
Diluted earnings per share	\$ 265,420	1,084,539	0.24	366,767	1,183,269	0.31

	2014			2013		
	Net Earnings	Weighted Average Shares Outstanding	Net Earnings Per Share	Net Earnings	Weighted Average Shares Outstanding	Net Earnings Per Share
<u>Six Months Ended June 30,</u>						
Basic earnings per share	\$ 533,129	1,072,179	0.50	661,818	1,153,715	0.57
Effect of dilutive securities						
Stock options	-	12,468	(0.01)	-	30,632	(0.01)
Diluted earnings per share	\$ 533,129	1,084,647	0.49	661,818	1,184,347	0.56

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 (loss) for the three months and six months ended June 30, 2014 and 2013:

	2014		2013	
	Net Unrealized Gains and Losses	Total Accumulated Other Comprehensive Income	Net Unrealized Gains and Losses	Total Accumulated Other Comprehensive Income
Balance as of April 1	\$ 527,916	527,916	1,030,254	1,030,254
Other comprehensive income (loss) before reclassifications to earnings, net	659,941	659,941	(734,888)	(734,888)
Reclassifications, net	265,985	265,985	264,141	264,141
Other comprehensive income (loss), net of taxes	393,956	393,956	(999,029)	(999,029)
Balance as of June 30	\$ 921,872	921,872	31,225	31,225

	2014		2013	
	Net Unrealized Gains and Losses	Total Accumulated Other Comprehensive Income (Loss)	Net Unrealized Gains and Losses	Total Accumulated Other Comprehensive Income
Balance as of January 1	\$ (61,928)	(61,928)	577,746	577,746
Other comprehensive income (loss) before reclassifications to earnings, net	1,440,659	1,440,659	(41,515)	(41,515)
Reclassifications, net	456,859	456,859	505,006	505,006
Other comprehensive income (loss), net of taxes	983,800	983,800	(546,521)	(546,521)
Balance as of June 30	\$ 921,872	921,872	31,225	31,225

The following table presents the pretax and related income tax expense component of the amounts reclassified from the Company's accumulated other comprehensive income (loss) to the Company's consolidated statement of earnings for the three months and six months ended June 30, 2014 and 2013.

<u>Three Months Ended June 30,</u>	2014	2013
Net realized capital gains recognized in earnings	\$ 403,008	400,213
Income tax expense	137,023	136,072
Reclassifications, net	\$ 265,985	264,141

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<u>Six Months Ended June 30,</u>	<u>2014</u>	<u>2013</u>
Net realized capital gains recognized in earnings	\$ 692,210	765,161
Income tax expense	<u>235,351</u>	<u>260,155</u>
Reclassifications, net	<u>\$ 456,859</u>	<u>505,006</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, 2014 and 2013.

<u>Three Months Ended June 30,</u>	<u>2014</u>	<u>2013</u>
Unrealized holding gain (loss) arising during the period, net of income taxes	\$ 659,941	(734,888)
Less: Reclassification adjustment for gains included in earnings, net of income taxes	<u>265,985</u>	<u>264,141</u>
Changes included in comprehensive income	<u>\$ 393,956</u>	<u>(999,029)</u>

<u>Six Months Ended June 30,</u>	<u>2014</u>	<u>2013</u>
Unrealized holding gain (loss) arising during the period, net of income taxes	\$ 1,440,659	(41,515)
Less: Reclassification adjustment for gains included in earnings, net of income taxes	<u>456,859</u>	<u>505,006</u>
Changes included in comprehensive income	<u>\$ 983,800</u>	<u>(546,521)</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, 2014 there were 47,000 stock options outstanding, of which all were vested. There was no share-based compensation expense incurred or corresponding tax benefit recognized in earnings in 2014 or 2013. There was no unrecognized compensation cost related to share-based incentive compensation awards as of June 30, 2014 or December 31, 2013.

Holder of stock options exercised 29,500 options and let expire 20,000 options through June 30, 2014. Holders of stock options exercised 25,000 options through June 30, 2013. Cash received from stock options exercised through June 30, 2014 and 2013 was \$360,490 and \$320,950, respectively. Cash paid to settle shares issued pursuant to stock options exercised through June 30, 2014 and 2013 was \$649,000 and \$543,750, respectively.

The Company has realized excess tax benefit from the options exercised of \$164,841 in retained earnings through June 30, 2014. The Company currently maintains an unrealized benefit of \$358,103.

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(7) Subsequent Event

In July 2014, ACMAT refinanced its outstanding term loan. The refinancing resulted in an additional \$3,747,619 lending capacity from which ACMAT drew \$1,727,502 upon closing. The loan is interest-only through the earlier of (1) the drawdown of remaining available funds per the credit facility or (2) August 1, 2015; principal is repaid evenly over an eighty-four month period beginning thereafter. Interest is variable and currently based on one-month LIBOR plus 2.25%.