



ACMAT CORPORATION

ACMAT CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements

September 30, 2014

(Unaudited)

ACMAT CORPORATION AND SUBSIDIARIES
September 30, 2014

TABLE OF CONTENTS

	<u>Page</u>
Consolidated Balance Sheets	2
Consolidated Statements of Earnings (Unaudited)	3
Consolidated Statements of Comprehensive Income (Unaudited)	4
Consolidated Statements of Stockholders' Equity (Unaudited)	5
Consolidated Statements of Cash Flows (Unaudited)	6
Notes to Consolidated Financial Statements (Unaudited)	7

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

	September 30,	December 31,
Assets	2014	2013
	(Unaudited)	<u>2013</u>
Investments:		
Fixed maturities (Amortized cost of \$43,599,770 in 2014 and \$46,228,204 in 2013)	\$ 44,732,212	46,004,644
Equity securities (Historical cost of \$13,217,765 in 2014 and \$10,628,670 in 2013)	12,635,048	10,758,399
Short-term investments, at cost which approximates fair value	4,978,833	3,283,481
Total investments	<u>62,346,093</u>	<u>60,046,524</u>
Cash and cash equivalents	2,887,563	5,480,724
Accrued interest receivable	421,078	383,463
Premiums receivable, net of allowance for doubtful accounts of \$25,292 as of September 30, 2014 and \$28,305 as of December 31, 2013	69,718	93,907
Other receivables	165,102	251,993
Reinsurance recoverable	1,903,766	1,879,684
Prepaid expenses	235,963	126,626
Income taxes receivable	289,403	317,912
Deferred income taxes, net	285,041	578,883
Property and equipment, net	5,180,140	5,262,125
Deferred policy acquisition costs	105,781	108,318
Ceded unearned premiums	110,176	119,053
Other assets	754,322	1,083,928
Intangibles	1,920,360	1,920,360
Total assets	<u>\$ 76,674,506</u>	<u>77,653,500</u>
Liabilities and Stockholders' Equity		
Reserves for losses and loss adjustment expenses	\$ 15,222,313	15,399,806
Unearned premiums	756,556	817,140
Collateral held	18,527,399	19,341,931
Reinsurance premiums payable	52,231	51,353
Accounts payable and accrued liabilities	1,483,408	1,511,325
Long-term debt	8,073,633	7,235,714
Total liabilities	<u>44,115,540</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; 647,782 shares issued and outstanding)	647,782	714,207
Retained earnings	31,190,399	32,285,886
Accumulated other comprehensive income (loss)	362,819	(61,928)
Total stockholders' equity	<u>32,558,966</u>	<u>33,296,231</u>
Total liabilities and stockholders' equity	<u>\$ 76,674,506</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 Nine Months Ended September 30, 2014 and 2013

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Revenues				
Premiums	\$ 451,480	557,847	1,412,794	1,562,249
Net investment income	534,526	562,379	1,636,095	1,661,001
Net realized capital gains	244,977	351,791	937,187	1,116,952
Fee and other income	20,597	48,868	91,516	205,810
Total revenues	<u>1,251,580</u>	<u>1,520,885</u>	<u>4,077,592</u>	<u>4,546,012</u>
Expenses				
Incurring losses and loss adjustment expenses	45,148	55,785	141,279	156,225
Amortization of deferred acquisition costs	76,308	82,474	226,225	245,651
General and administrative expenses	791,479	858,450	2,545,467	2,556,387
Interest expense	62,399	66,530	181,653	187,328
Total expenses	<u>975,334</u>	<u>1,063,239</u>	<u>3,094,624</u>	<u>3,145,591</u>
Earnings before income taxes	276,246	457,646	982,968	1,400,421
Provision for income taxes	27,616	110,663	201,209	391,620
Net earnings	<u>\$ 248,630</u>	<u>346,983</u>	<u>781,759</u>	<u>1,008,801</u>
Basic earnings per-share	\$ 0.23	\$ 0.32	\$ 0.73	\$ 0.89
Diluted earnings per-share	\$ 0.23	\$ 0.31	\$ 0.73	\$ 0.86

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, 2014 and 2013

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Net earnings	\$ 248,630	346,983	781,759	1,008,801
Change in unrealized gains and losses on investment securities	(847,050)	(353,839)	643,556	(1,181,901)
Income tax (benefit) expense	(287,997)	(120,306)	218,809	(401,847)
Other comprehensive (loss) income, net of taxes	(559,053)	(233,533)	424,747	(780,054)
Comprehensive (loss) income	\$ (310,423)	113,450	1,206,506	228,747

See Notes to Consolidated Financial Statements (Unaudited)

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity (Unaudited)
For the Nine Months Ended September 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	-	-	-	(780,054)	(780,054)
Net earnings	-	-	1,008,801	-	1,008,801
Total comprehensive income	-	-	1,008,801	(780,054)	228,747
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 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>
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	-	-	-	424,747	424,747
Net earnings	-	-	781,759	-	781,759
Total comprehensive income	-	-	781,759	424,747	1,206,506
Excess benefit from stock options exercised	-	-	176,679	-	176,679
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 95,925 shares of Class A Stock	-	(95,925)	(2,382,515)	-	(2,478,440)
Balance as of September 30, 2014	<u>\$ 357,966</u>	<u>647,782</u>	<u>31,190,399</u>	<u>362,819</u>	<u>32,558,966</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, 2014 and 2013

	2014	2013
Cash flows from operating activities		
Net earnings	\$ 781,759	1,008,801
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	180,589	251,604
Net realized capital gains	(937,187)	(1,116,952)
Deferred income tax expense	76,831	58,255
Changes in:		
Accrued interest receivable	(37,615)	1,809
Receivables	111,080	44,610
Reinsurance recoverable	(24,082)	(7,228)
Income taxes receivable	26,711	(13,753)
Deferred policy acquisition costs	2,537	7,735
Prepaid expenses and other assets	247,771	571,706
Reserves for losses and loss adjustment expenses	(177,493)	(53,419)
Unearned premiums, net	(51,707)	17,149
Collateral held	(814,532)	(4,385,831)
Reinsurance premiums payable	878	(19,331)
Accounts payable and accrued liabilities	(27,917)	320,649
Net cash used for operating activities	(642,377)	(3,314,196)
Cash flows from investing activities		
Proceeds from investments sold, matured or redeemed:		
Fixed maturities sold	3,617,059	6,623,225
Maturities and redemptions	4,775,759	9,520,790
Equity securities	48,886,538	59,021,093
Purchases of:		
Fixed maturities	(5,797,728)	(12,934,697)
Equity securities	(50,544,846)	(55,889,680)
Short-term investments, net	(1,695,352)	(4,141,318)
Capital expenditures	(58,860)	(66,964)
Net cash (used for) provided by investing activities	(817,430)	2,132,449
Cash flows from financing activities		
Funds borrowed	1,700,000	1,500,000
Repayments of long-term debt	(889,583)	(1,102,679)
Excess tax benefit realized pursuant to stock options exercised	176,679	-
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	(2,478,440)	(2,757,310)
Net cash used for financing activities	(1,133,354)	(2,288,519)
Net change in cash and cash equivalents	(2,593,161)	(3,470,266)
Cash and cash equivalents, beginning of period	5,480,724	6,784,790
Cash and cash equivalents, end of period	\$ 2,887,563	3,314,524
<u>Supplemental disclosure of cash flows information:</u>		
Cash paid for income taxes	23,792	347,118
Cash paid for interest	152,662	187,328

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 September 30, 2014 and December 31, 2013 were as follows:

	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
<u>As of September 30, 2014</u>				
U.S. government and government agencies	\$ 4,054,429	5,755	-	4,060,184
States, municipalities and political subdivisions	23,817,385	1,021,816	142,857	24,696,344
Industrial and miscellaneous	6,024,797	177,419	57,756	6,144,460
Mortgage-backed securities	6,799,259	216,652	80,916	6,934,995
Redeemable preferred stock	2,903,900	55,640	63,311	2,896,229
Total fixed maturities	43,599,770	1,477,282	344,840	44,732,212
Perpetual preferred stock	2,690,755	74,371	32,142	2,732,984
Common stock	10,527,010	636,755	1,261,701	9,902,064
Total equity securities	13,217,765	711,126	1,293,843	12,635,048
Total	\$ 56,817,535	2,188,408	1,638,683	57,367,260

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 September 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 September 30, 2014</u>						
States, municipalities and political subdivisions	\$ 2,123,372	23,650	3,964,473	119,207	6,087,845	142,857
Industrial and miscellaneous	1,349,473	57,756	-	-	1,349,473	57,756
Mortgage-backed securities	1,073,070	6,540	402,809	74,376	1,475,879	80,916
Redeemable preferred stock	293,020	6,980	1,606,169	56,331	1,899,189	63,311
Total fixed maturities	4,838,935	94,926	5,973,451	249,914	10,812,386	344,840
Perpetual preferred stock	502,728	20,150	188,008	11,992	690,736	32,142
Common stock	6,967,287	671,201	1,645,537	590,500	8,612,824	1,261,701
Total equity securities	7,470,015	691,351	1,833,545	602,492	9,303,560	1,293,843
Total	\$ 12,308,950	786,277	7,806,996	852,406	20,115,946	1,638,683

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 September 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				
	3 Months or Less	Greater than 3 Months, Less than 6 Months	Greater than 6 Months, Less than 12 Months	Greater than 12 Months	Total
<u>As of September 30, 2014</u>					
Industrial and miscellaneous	\$ 22,950	-	-	-	22,950
Mortgage-backed securities	-	-	-	52,620	52,620
Common stock	360,410	256,851	41,699	100,639	759,599
Total:	\$ 383,360	256,851	41,699	153,259	835,169

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 September 30, 2014 and December 31, 2013.

	Level 1	Level 2	Level 3	Total
<u>As of September 30, 2014</u>				
U.S. government and government agencies	\$ 4,060,184	-	-	4,060,184
States, municipalities and political subdivisions	-	24,696,344	-	24,696,344
Industrial and miscellaneous	-	6,144,460	-	6,144,460
Mortgage-backed securities	-	6,934,995	-	6,934,995
Redeemable preferred stock	-	2,896,229	-	2,896,229
Total fixed maturities	4,060,184	40,672,028	-	44,732,212
Perpetual preferred stock	-	2,732,984	-	2,732,984
Common stock	9,902,064	-	-	9,902,064
Total equity securities	9,902,064	2,732,984	-	12,635,048
Total	\$ 13,962,248	43,405,012	-	57,367,260

	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 nine months ended September 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 September 30,</u>						
Basic earnings per share	\$ 248,630	1,063,846	0.23	346,983	1,099,496	0.32
Effect of dilutive securities						
Stock options	-	12,020	-	-	33,018	(0.01)
Diluted earnings per share	\$ 248,630	1,075,866	0.23	346,983	1,132,514	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>Nine Months Ended September 30,</u>						
Basic earnings per share	\$ 781,759	1,063,846	0.73	1,008,801	1,135,443	0.89
Effect of dilutive securities						
Stock options	-	12,318	-	-	31,478	(0.03)
Diluted earnings per share	\$ 781,759	1,076,164	0.73	1,008,801	1,166,921	0.86

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 nine months ended September 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 July 1	\$ 921,872	921,872	31,225	31,225
Other comprehensive (loss) before reclassifications to earnings, net	(397,368)	(397,368)	(1,351)	(1,351)
Reclassifications, net	161,685	161,685	232,182	232,182
Other comprehensive (loss), net of taxes	(559,053)	(559,053)	(233,533)	(233,533)
Balance as of September 30	<u>\$ 362,819</u>	<u>362,819</u>	<u>(202,308)</u>	<u>(202,308)</u>

	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	1,043,290	1,043,290	(42,866)	(42,866)
Reclassifications, net	618,543	618,543	737,188	737,188
Other comprehensive income (loss), net of taxes	424,747	424,747	(780,054)	(780,054)
Balance as of September 30	<u>\$ 362,819</u>	<u>362,819</u>	<u>(202,308)</u>	<u>(202,308)</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 (loss) to the Company's consolidated statement of earnings for the three months and nine months ended September 30, 2014 and 2013.

<u>Three Months Ended September 30,</u>	2014	2013
Net realized capital gains recognized in earnings	\$ 244,977	351,791
Income tax expense	83,292	119,609
Reclassifications, net	<u>\$ 161,685</u>	<u>232,182</u>

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

<u>Nine Months Ended September 30,</u>	<u>2014</u>	<u>2013</u>
Net realized capital gains recognized in earnings	\$ 937,187	1,116,952
Income tax expense	<u>318,644</u>	<u>379,764</u>
Reclassifications, net	<u>\$ 618,543</u>	<u>737,188</u>

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, 2014 and 2013.

<u>Three Months Ended September 30,</u>	<u>2014</u>	<u>2013</u>
Unrealized holding (loss) arising during the period, net of income taxes	\$ (397,368)	(1,351)
Less: Reclassification adjustment for gains included in earnings, net of income taxes	<u>161,685</u>	<u>232,182</u>
Changes included in comprehensive income	<u>\$ (559,053)</u>	<u>(233,533)</u>

<u>Nine Months Ended September 30,</u>	<u>2014</u>	<u>2013</u>
Unrealized holding gain (loss) arising during the period, net of income taxes	\$ 1,043,290	(42,866)
Less: Reclassification adjustment for gains included in earnings, net of income taxes	<u>618,543</u>	<u>737,188</u>
Changes included in comprehensive income	<u>\$ 424,747</u>	<u>(780,054)</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 September 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 September 30, 2014 or December 31, 2013.

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

The Company has realized excess tax benefit from the options exercised of \$176,679 in retained earnings through September 30, 2014. The Company currently maintains an unrealized benefit of \$346,266.