



ACMAT CORPORATION

ACMAT CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements

March 31, 2015

(Unaudited)

ACMAT CORPORATION AND SUBSIDIARIES
March 31, 2015

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ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets
As of March 31, 2015 and December 31, 2014

Assets	March 31, 2015 (Unaudited)	December 31, 2014
Investments:		
Fixed maturities (Amortized cost of \$44,450,412 in 2015 and \$43,761,413 in 2014)	\$ 45,748,194	44,914,586
Equity securities (Historical cost of \$12,515,721 in 2015 and \$8,209,342 in 2014)	12,373,639	8,085,342
Short-term investments, at cost which approximates fair value	2,217,255	6,024,142
Total investments	60,339,088	59,024,070
Cash and cash equivalents	3,871,757	5,793,124
Accrued interest receivable	465,764	328,839
Premiums receivable, net of allowance for doubtful accounts of \$37,536 as of March 31, 2015 and \$19,802 as of December 31, 2014	109,156	41,746
Other receivables	261,214	209,560
Reinsurance recoverable	1,818,750	1,813,184
Prepaid expenses	54,400	130,341
Property and equipment, net	5,132,475	5,158,921
Deferred policy acquisition costs	90,381	90,809
Ceded unearned premiums	102,150	93,657
Other assets	1,794,315	1,093,502
Intangibles	1,920,360	1,920,360
Total assets	\$ 75,959,810	75,698,113
Liabilities and Stockholders' Equity		
Reserves for losses and loss adjustment expenses	\$ 14,900,798	14,927,292
Unearned premiums	701,538	643,159
Income taxes payable	18,334	1,184
Deferred income taxes, net	183,214	218,401
Collateral held	18,171,349	18,036,537
Reinsurance premiums payable	43,865	39,594
Accounts payable and accrued liabilities	892,949	1,229,687
Long-term debt	8,036,133	8,054,883
Total liabilities	42,948,180	43,150,737
Common Stock (No par value; 3,500,000 shares authorized; 357,966 shares issued and outstanding)	357,966	357,966
Class A Stock (No par value; 10,000,000 shares authorized; 647,082 shares issued and outstanding)	647,082	647,682
Retained earnings	31,661,758	31,256,626
Accumulated other comprehensive income	344,824	285,102
Total stockholders' equity	33,011,630	32,547,376
Total liabilities and stockholders' equity	\$ 75,959,810	75,698,113

See Notes to Consolidated Financial Statements (Unaudited)

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Earnings (Unaudited)
For the Three Months Ended March 31, 2015 and 2014

	2015	2014
Revenues		
Premiums	\$ 326,569	489,916
Net investment income	567,337	539,195
Net realized capital gains	335,366	289,202
Fee and other income	40,485	53,470
Total revenues	1,269,757	1,371,783
Expenses		
Incurred losses and loss adjustment expenses	(92,343)	48,992
Amortization of deferred acquisition costs	52,701	79,336
General and administrative expenses	824,879	804,489
Interest expense	67,353	61,010
Total expenses	852,590	993,827
Earnings before income taxes	417,167	377,956
Provision for income taxes	127,622	110,247
Net earnings	\$ 289,545	267,709
Basic earnings per-share	\$ 0.29	\$ 0.25
Diluted earnings per-share	\$ 0.29	\$ 0.25

See Notes to Consolidated Financial Statements (Unaudited)

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income (Unaudited)
For the Three Months Ended March 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Net earnings	\$ 289,545	267,709
Change in net unrealized gains and losses on investment securities	126,525	893,703
Income tax expense	<u>66,803</u>	<u>303,859</u>
Other comprehensive income, net of taxes	<u>59,722</u>	<u>589,844</u>
Comprehensive income	<u>\$ 349,267</u>	<u>857,553</u>

See Notes to Consolidated Financial Statements (Unaudited)

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity (Unaudited)
For the Three Months Ended March 31, 2015 and 2014

	<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, 2013	\$ 358,066	714,207	32,285,886	(61,928)	33,296,231
Comprehensive income					
Net change in unrealized capital gains and losses on investment securities, net of reclassification	-	-	-	589,844	589,844
Net earnings	-	-	267,709	-	267,709
Comprehensive income	-	-	267,709	589,844	857,553
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 March 31, 2014	<u>\$ 357,966</u>	<u>714,207</u>	<u>32,262,685</u>	<u>527,916</u>	<u>33,862,774</u>
Balance as of December 31, 2014	\$ 357,966	647,682	31,256,626	285,102	32,547,376
Comprehensive income					
Net change in unrealized capital gains and losses on investment securities, net of reclassification	-	-	-	59,722	59,722
Net earnings	-	-	289,545	-	289,545
Comprehensive income	-	-	289,545	59,722	349,267
Excess benefit from stock options exercised	-	-	128,337	-	128,337
Acquisition and retirement of 600 shares of Class A Stock	-	(600)	(12,750)	-	(13,350)
Balance as of March 31, 2015	<u>\$ 357,966</u>	<u>647,082</u>	<u>31,661,758</u>	<u>344,824</u>	<u>33,011,630</u>

See Notes to Consolidated Financial Statements (Unaudited)

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Unaudited)
For the Three Months Ended March 31, 2015 and 2014

	2015	2014
Cash flows from operating activities		
Net earnings	\$ 289,545	267,709
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	56,683	71,639
Net realized capital gains	(335,366)	(289,202)
Deferred income tax expense	(101,990)	77,804
Changes in:		
Accrued interest receivable	(136,925)	(36,563)
Receivables	(119,064)	(112,250)
Reinsurance recoverable	(5,566)	13,422
Income taxes receivable	17,150	27,828
Deferred policy acquisition costs	428	(12,921)
Prepaid expenses and other assets	354,490	248,526
Reserves for losses and loss adjustment expenses	(26,494)	(149,303)
Unearned premiums, net	49,887	49,869
Collateral held	134,812	(20,391)
Reinsurance premiums payable	4,271	7,230
Accounts payable and accrued liabilities	(336,739)	(524,642)
Net cash used for operating activities	(154,878)	(381,245)
Cash flows from investing activities		
Proceeds from investments sold, matured or redeemed:		
Fixed maturities sold	1,070,200	366,428
Maturities and redemptions	1,657,039	2,453,119
Equity securities	19,364,909	16,342,534
Purchases of:		
Fixed maturities	(3,382,194)	(1,384,844)
Equity securities	(23,382,205)	(14,997,727)
Short-term investments, net	3,806,887	(3,567,707)
Unsettled trades	(979,361)	99,558
Capital expenditures	(18,001)	(16,505)
Net cash used for investing activities	(1,862,726)	(705,144)
Cash flows from financing activities		
Repayments of long-term debt	(18,750)	(375,893)
Excess benefit realized on share based compensation	128,337	-
Acquisition and retirement of common shares	-	(2,500)
Issuance of Class A shares pursuant to stock options	-	360,490
Acquisition and retirement of Class A shares	(13,350)	(649,000)
Net cash provided by (used for) financing activities	96,237	(666,903)
Net change in cash and cash equivalents	(1,921,367)	(1,753,292)
Cash and cash equivalents, beginning of period	5,793,124	5,480,724
Cash and cash equivalents, end of period	\$ 3,871,757	3,727,432
<u>Supplemental disclosure of cash flows information:</u>		
Cash paid for (received from) income taxes	84,125	(58,473)
Cash paid for interest	57,083	61,010

See Notes to Consolidated Financial Statements (Unaudited)

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

(1) Basis of Presentation and Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of ACMAT Corporation ("ACMAT" or "the Company") and its subsidiaries. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and are unaudited.

The interim financial information contained in this report has been prepared from the books and records of the Company and its subsidiaries and reflects, in the opinion of the management of the Company, all adjustments (consisting of normal and recurring accruals) necessary to fairly present results of operations for the periods indicated. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain prior period balances have been reclassified to conform to the current period presentation.

These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report for the year ended December 31, 2014.

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 March 31, 2015 and December 31, 2014 were as follows:

	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
<u>As of March 31, 2015</u>				
U.S. government and government agencies	\$ 3,822,807	3,165	-	3,825,972
States, municipalities and political subdivisions	22,332,061	997,123	92,750	23,236,434
Industrial and miscellaneous	6,529,111	191,932	52,844	6,668,199
Mortgage-backed securities	8,317,533	232,601	88,996	8,461,138
Redeemable preferred stock	3,448,900	118,036	10,485	3,556,451
Total fixed maturities	44,450,412	1,542,857	245,075	45,748,194
Perpetual preferred stock	2,440,755	99,093	-	2,539,848
Common stock	10,074,966	742,979	984,154	9,833,791
Total equity securities	12,515,721	842,072	984,154	12,373,639
Total	\$ 56,966,133	2,384,929	1,229,229	58,121,833

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

	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
<u>As of December 31, 2014</u>				
U.S. government and government agencies	\$ 3,832,651	2,291	27	3,834,915
States, municipalities and political subdivisions	22,245,149	949,337	101,480	23,093,006
Industrial and miscellaneous	6,148,718	165,655	60,935	6,253,438
Mortgage-backed securities	7,985,995	227,347	78,756	8,134,586
Redeemable preferred stock	3,548,900	83,376	33,635	3,598,641
Total fixed maturities	43,761,413	1,428,006	274,833	44,914,586
Perpetual preferred stock	2,195,755	72,535	11,360	2,256,930
Common stock	6,013,587	687,906	873,081	5,828,412
Total equity securities	8,209,342	760,441	884,441	8,085,342
Total	\$ 51,970,755	2,188,447	1,159,274	52,999,928

The following tables summarize, for all investments in an unrealized loss position at March 31, 2015 and December 31, 2014, 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 March 31, 2015</u>						
States, municipalities and political subdivisions	\$ 1,114,712	15,689	2,547,771	77,061	1,130,401	92,750
Industrial and miscellaneous	1,380,028	49,473	100,599	3,371	1,429,501	52,844
Mortgage-backed securities	1,498,021	36,087	359,792	52,909	1,534,108	88,996
Redeemable preferred stock	370,400	4,600	331,615	5,885	375,000	10,485
Total fixed maturities	4,363,161	105,849	3,339,777	139,226	4,469,010	245,075
Common stock	6,057,200	465,185	1,160,497	518,969	6,522,385	984,154
Total equity securities	6,057,200	465,185	1,160,497	518,969	6,522,385	984,154
Total	\$ 10,420,361	571,034	4,500,274	658,195	10,991,395	1,229,229

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, 2014</u>						
U.S. government and government agencies	\$ 277,310	27	-	-	277,310	27
States, municipalities and political subdivisions	1,455,354	15,232	2,831,592	86,248	4,286,946	101,480
Industrial and miscellaneous	2,263,253	60,935	-	-	2,263,253	60,935
Mortgage-backed securities	967,800	23,445	372,502	55,311	1,340,302	78,756
Redeemable preferred stock	365,100	9,900	888,765	23,735	1,253,865	33,635
Total fixed maturities	5,328,817	109,539	4,092,859	165,294	9,421,676	274,833
Perpetual preferred stock	-	-	188,640	11,360	188,640	11,360
Common stock	3,128,950	548,322	1,036,037	324,759	4,164,987	873,081
Total equity securities	3,128,950	548,322	1,224,677	336,119	4,353,627	884,441
Total	\$ 8,457,767	657,861	5,317,536	501,413	13,775,303	1,159,274

The following table summarizes, for all fixed maturities and equity securities reported at fair value for which fair value is less than 80% of amortized cost at March 31, 2015, the gross unrealized loss by length of time those securities have continuously been in an unrealized loss position in excess of 20% of amortized cost:

	Period For Which Fair Value is Less than 80% of Amortized Cost				Total
	3 Months or Less	Greater than 3 Months, Less than 6 Months	Greater than 6 Months, Less than 12 Months	Greater than 12 Months	
<u>As of March 31, 2015</u>					
States, municipalities and political subdivisions	\$ -	-	-	23,597	23,597
Mortgage-backed securities	23,297	-	-	19,727	43,024
Common stock	345,385	94,682	240,546	38,034	718,647
Total:	\$ 368,682	94,682	240,546	81,358	785,268

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 March 31, 2015 and December 31, 2014.

	Level 1	Level 2	Level 3	Total
<u>As of March 31, 2015</u>				
U.S. government and government agencies	\$ 3,825,972	-	-	3,825,972
States, municipalities and political subdivisions	-	23,236,434	-	23,236,434
Industrial and miscellaneous	-	6,668,199	-	6,668,199
Mortgage-backed securities	-	8,461,138	-	8,461,138
Redeemable preferred stock	-	3,556,451	-	3,556,451
Total fixed maturities	3,825,972	41,922,222	-	45,748,194
Perpetual preferred stock	-	2,539,848	-	2,539,848
Common stock	9,833,791	-	-	9,833,791
Total equity securities	9,833,791	2,539,848	-	12,373,639
Short-term investments	-	2,217,255	-	2,217,255
Total	\$ 13,659,763	46,679,325	-	60,339,088
	Level 1	Level 2	Level 3	Total
<u>As of December 31, 2014</u>				
U.S. government and government agencies	\$ 3,834,915	-	-	3,834,915
States, municipalities and political subdivisions	-	23,093,006	-	23,093,006
Industrial and miscellaneous	-	6,253,438	-	6,253,438
Mortgage-backed securities	-	8,134,586	-	8,134,586
Redeemable preferred stock	-	3,598,641	-	3,598,641
Total fixed maturities	3,834,915	41,079,671	-	44,914,586
Perpetual preferred stock	-	2,256,930	-	2,256,930
Common stock	5,828,412	-	-	5,828,412
Total equity securities	5,828,412	2,256,930	-	8,085,342
Short-term investments	-	6,024,142	-	6,024,142
Total	\$ 9,663,327	49,360,743	-	59,024,070

There were no significant transfers between Level 1 and 2 or from level 3 in 2015 or 2014.

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 ended March 31, 2015 and 2014:

	2015			2014		
	Net Earnings	Weighted Average Shares Outstanding	Net Earnings Per Share	Net Earnings	Weighted Average Shares Outstanding	Net Earnings Per Share
<u>Three Months Ended March 31,</u>						
Basic earnings per share	\$ 289,545	1,005,128	0.29	267,709	1,072,185	0.25
Effect of dilutive securities						
Stock options	-	9,212	-	-	12,579	-
Diluted earnings per share	\$ 289,545	1,014,340	0.29	267,709	1,084,765	0.25

(5) Comprehensive Income

The following table presents the changes in the Company's accumulated other comprehensive income for the three months ended March 31, 2015 and 2014:

	2015		2014	
	Net Unrealized Gains and Losses	Total Accumulated Other Comprehensive Income	Net Unrealized Gains and Losses	Total Accumulated Other Comprehensive Income (Loss)
Balance as of January 1	\$ 285,102	285,102	(61,928)	(61,928)
Other comprehensive income before reclassifications to earnings, net	281,064	281,064	780,717	780,717
Reclassifications, net	221,342	221,342	190,873	190,873
Other comprehensive income, net of taxes	59,722	59,722	589,844	589,844
Balance as of March 31	\$ 344,824	344,824	527,916	527,916

The following table presents the pretax and related income tax expense component of the amounts reclassified from the Company's accumulated other comprehensive income to the Company's consolidated statement of earnings for the three months ended March 31, 2015 and 2014.

<u>Three Months Ended March 31,</u>	2015	2014
Net realized capital gains recognized in earnings	\$ 335,366	289,202
Income tax expense	114,024	98,329
Reclassifications, net	\$ 221,342	190,873

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Notes to Consolidated Financial Statements (Unaudited)

The following table presents the pretax components of other comprehensive income and related income tax expense for the three months ended March 31, 2015 and 2014.

<u>Three Months Ended March 31,</u>	<u>2015</u>	<u>2014</u>
Unrealized holding gain arising during the period, net of income taxes	\$ 304,849	780,717
Less:		
Change in valuation allowance	23,785	-
Reclassification adjustment for gains included in earnings, net of income taxes	<u>221,342</u>	<u>190,873</u>
Changes included in comprehensive income	<u>\$ 59,722</u>	<u>589,844</u>

(6) Share-Based Compensation

The Company periodically grants non-qualified stock options giving certain individuals the right to purchase restricted shares of the Company's Common Stock and Class A Stock. The majority of the options granted generally vest evenly over a five to ten year period and typically feature a term of 10 years. The exercise price is equal to the fair value at the date of grant. The Company uses a variation of the Black-Scholes option pricing model to value stock options.

As of March 31, 2015 there were 52,000 stock options outstanding, of which all were vested. There was no share-based compensation expense incurred or corresponding tax benefit recognized in 2015 or 2014. There was no unrecognized compensation cost related to share-based incentive compensation awards as of March 31, 2015 or December 31, 2014.

No stock options were exercised or reached expiration through the first three months of 2015. Holders of stock options exercised 29,500 options and let expire 20,000 options through March 31, 2014. Cash received from stock options exercised through March 31, 2014 was \$360,490; cash paid to settle shares issued pursuant to stock options exercised was \$649,000 for the same period.

The Company has realized excess tax benefit from options exercised of \$128,337 in retained earnings through March 31, 2015 and recognized an offsetting charge to income tax expense for the same period. The Company currently maintains an unrealized benefit of \$267,623, after the effect of income taxes.

(7) Subsequent Events

There were no subsequent events requiring adjustment to the consolidated financial statements (unaudited) or disclosure therein through May 11, 2015, the date the Company's consolidated financial statements (unaudited) were issued.