



ACMAT CORPORATION

**ACMAT CORPORATION AND SUBSIDIARIES**

Consolidated Financial Statements

June 30, 2015

(Unaudited)

**ACMAT CORPORATION AND SUBSIDIARIES**  
**June 30, 2015**

TABLE OF CONTENTS

	<u>Page</u>
Consolidated Balance Sheets	1
Consolidated Statements of Earnings (Unaudited)	2
Consolidated Statements of Comprehensive (Loss) Income (Unaudited)	3
Consolidated Statements of Stockholders' Equity (Unaudited)	4
Consolidated Statements of Cash Flows (Unaudited)	5
Notes to Consolidated Financial Statements (Unaudited)	6

**ACMAT CORPORATION AND SUBSIDIARIES**  
**Consolidated Balance Sheets**  
**As of June 30, 2015 and December 31, 2014**

<b>Assets</b>	<b>June 30, 2015 (Unaudited)</b>	<b>December 31, 2014</b>
Investments:		
Fixed maturities (Amortized cost of \$45,673,598 in 2015 and \$43,761,413 in 2014)	\$ 46,185,228	44,914,586
Equity securities (Historical cost of \$14,573,927 in 2015 and \$8,209,342 in 2014)	13,869,488	8,085,342
Short-term investments	2,186,322	6,024,142
Total investments	62,241,038	59,024,070
Cash and cash equivalents	3,752,808	5,793,124
Accrued interest receivable	343,420	328,839
Premiums receivable, net of allowance for doubtful accounts of \$37,536 as of June 30, 2015 and \$19,802 as of December 31, 2014	97,736	41,746
Other receivables	190,215	209,560
Reinsurance recoverable	1,826,186	1,813,184
Prepaid expenses	252,963	130,341
Income taxes receivable	165,431	-
Property and equipment, net	5,103,700	5,158,921
Deferred policy acquisition costs	105,673	90,809
Ceded unearned premiums	111,496	93,657
Other assets	797,539	1,093,502
Intangibles	1,920,360	1,920,360
Total assets	\$ 76,908,565	75,698,113
<b>Liabilities and Stockholders' Equity</b>		
Reserves for losses and loss adjustment expenses	\$ 14,791,505	14,927,292
Unearned premiums	765,770	643,159
Income taxes payable	-	1,184
Deferred income taxes, net	61,436	218,401
Collateral held	18,990,027	18,036,537
Reinsurance premiums payable	50,040	39,594
Accounts payable and accrued liabilities	2,175,882	1,229,687
Long-term debt	8,017,383	8,054,883
Total liabilities	44,852,043	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	31,897,231	31,256,626
Accumulated other comprehensive (loss) income	(845,757)	285,102
Total stockholders' equity	32,056,522	32,547,376
Total liabilities and stockholders' equity	\$ 76,908,565	75,698,113

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, 2015 and 2014**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
<b>Revenues</b>				
Premiums	\$ 436,310	471,398	762,879	961,314
Net investment income	619,095	562,374	1,186,432	1,101,569
Net realized capital gains	333,525	403,008	668,891	692,210
Fee and other income	48,896	17,449	89,381	70,919
Total revenues	<u>1,437,826</u>	<u>1,454,229</u>	<u>2,707,583</u>	<u>2,826,012</u>
<b>Expenses</b>				
Incurring losses and loss adjustment expenses	(81,369)	47,139	(173,712)	96,131
Amortization of deferred acquisition costs	69,645	70,581	122,346	149,917
General and administrative expenses	816,467	949,499	1,641,346	1,753,988
Interest expense	67,210	58,244	134,563	119,254
Total expenses	<u>871,953</u>	<u>1,125,463</u>	<u>1,724,543</u>	<u>2,119,290</u>
Earnings before income taxes	565,873	328,766	983,040	706,722
Provision for income taxes	174,632	63,346	302,254	173,593
Net earnings	<u>\$ 391,241</u>	<u>265,420</u>	<u>680,786</u>	<u>533,129</u>
Basic earnings per-share	\$ 0.39	\$ 0.25	\$ 0.68	\$ 0.50
Diluted earnings per-share	\$ 0.39	\$ 0.24	\$ 0.68	\$ 0.49

See Notes to Consolidated Financial Statements (Unaudited)

**ACMAT CORPORATION AND SUBSIDIARIES**  
**Consolidated Statements of Comprehensive (Loss) Income (Unaudited)**  
**For the Three Months and Six Months Ended June 30, 2015 and 2014**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Net earnings	\$ 391,241	265,420	680,786	533,129
Change in unrealized gains and losses on investment securities	(1,348,509)	596,903	(1,221,984)	1,490,606
Income tax (benefit) expense	(157,928)	202,947	(91,125)	506,806
Other comprehensive (loss) income, net of taxes	(1,190,581)	393,956	(1,130,859)	983,800
Comprehensive (loss) income	\$ (799,340)	659,376	(450,073)	1,516,929

See Notes to Consolidated Financial Statements (Unaudited)

**ACMAT CORPORATION AND SUBSIDIARIES**  
**Consolidated Statements of Stockholders' Equity (Unaudited)**  
**For the Six Months Ended June 30, 2015 and 2014**

	<u>Common Stock Par value</u>	<u>Class A Stock Par Value</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive (Loss) Income</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					
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>
Balance as of December 31, 2014	\$ 357,966	647,682	31,256,626	285,102	32,547,376
Comprehensive loss					
Change in net unrealized gains and losses on investment securities, net of reclassification	-	-	-	(1,130,859)	(1,130,859)
Net earnings	-	-	680,786	-	680,786
Total comprehensive loss	-	-	680,786	(1,130,859)	(450,073)
Excess benefit from stock options exercised	-	-	242,819	-	242,819
Issuance of 47,000 shares of Class A Stock pursuant to stock options	-	47,000	575,750	-	622,750
Acquisition and retirement of 47,600 shares of Class A Stock	-	(47,600)	(858,750)	-	(906,350)
Balance as of June 30, 2015	\$ <u>357,966</u>	<u>647,082</u>	<u>31,897,231</u>	<u>(845,757)</u>	<u>32,056,522</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, 2015 and 2014**

	<b>2015</b>	<b>2014</b>
<b>Cash flows from operating activities</b>		
Net earnings	\$ 680,786	533,129
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	112,716	122,692
Net realized capital gains	(668,891)	(692,210)
Deferred income tax expense	(65,840)	60,912
Changes in:		
Accrued interest receivable	(14,581)	51,263
Receivables	(36,645)	(42,462)
Reinsurance recoverable	(13,002)	(16,386)
Income taxes receivable	(166,615)	(80,374)
Deferred policy acquisition costs	(14,864)	6,796
Prepaid expenses and other assets	(125,234)	178,261
Reserves for losses and loss adjustment expenses	(135,787)	(108,904)
Unearned premiums, net	104,773	(53,253)
Collateral held	953,490	(157,800)
Reinsurance premiums payable	10,446	(18,830)
Accounts payable and accrued liabilities	(219,374)	(341,954)
Net cash provided by (used for) operating activities	401,378	(559,120)
<b>Cash flows from investing activities</b>		
Proceeds from investments sold, matured or redeemed:		
Fixed maturities sold	1,379,109	1,188,571
Maturities and redemptions	2,685,778	4,202,667
Equity securities	35,653,333	36,988,701
Purchases of:		
Fixed maturities	(5,989,106)	(3,322,151)
Equity securities	(41,363,785)	(33,852,763)
Short-term investments, net	3,837,820	(5,747,967)
Unsettled securities transactions	1,464,142	-
Capital expenditures	(30,704)	(41,343)
Net cash used for investing activities	(2,363,413)	(584,285)
<b>Cash flows from financing activities</b>		
Repayments of long-term debt	(37,500)	(751,785)
Excess tax benefit realized pursuant to stock options exercised	242,819	164,841
Acquisition and retirement of common shares	-	(2,500)
Issuance of Class A shares pursuant to stock options	622,750	360,490
Acquisition and retirement of Class A shares	(906,350)	(649,000)
Net cash used for financing activities	(78,281)	(877,954)
Net change in cash and cash equivalents	(2,040,316)	(2,021,359)
Cash and cash equivalents, beginning of period	5,793,124	5,480,724
Cash and cash equivalents, end of period	\$ 3,752,808	3,459,365
<u>Supplemental disclosure of cash flows information:</u>		
Cash paid for income taxes	291,890	26,413
Cash paid for interest	114,022	100,247

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.

**Accounting Standards Not Yet Adopted**

*Simplifying the Presentation of Debt Issuance Costs*

In April 2015, the FASB issued updated guidance to clarify the required presentation of debt issuance costs. The amended guidance requires that debt issuance costs be presented in the balance sheet as a direct reduction from the carrying amount of the recognized liability for long-term debt, consistent with the treatment of debt discounts. Amortization of debt issuance costs is to be reported as interest expense. The recognition and measurement guidance for debt issuance costs are not affected by the updated guidance. The updated guidance is effective for reporting periods beginning after December 15, 2015. Early adoption is permitted. The adoption of this guidance will not have any effect on the Company's results of operations, financial position or liquidity.

*Disclosures about Short-Duration Contracts*

In May 2015, the FASB issued updated disclosure requirements to increase transparency of significant estimates made in measuring liabilities associated with short-duration insurance contracts. The requirements will provide financial statement users with information to facilitate analysis of the amount, timing, and uncertainty of cash flows arising from contracts issued by insurance entities and the development of loss reserve estimates. The updated guidance is effective for reporting periods beginning after December 15, 2015. Early adoption is permitted. The adoption of this guidance will not have any effect on the Company's results of operations, financial position or liquidity.

**Nature of Operations**

ACMAT, through its wholly-owned subsidiary, ACSTAR Insurance Company ("ACSTAR"), provides surety bonds for prime contractors, specialty trade, environmental remediation and asbestos abatement contractors, and miscellaneous surety. ACSTAR is licensed to write business nationwide and is an approved surety by the United States Department of the Treasury.



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

**(2) Investments**

The amortized cost and fair value of investments in fixed maturities and equity securities classified as available-for-sale as of June 30, 2015 and December 31, 2014 were as follows:

	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
<u>As of June 30, 2015</u>				
U.S. government and government agencies	\$ 3,813,879	2,485	109	3,816,255
States, municipalities and political subdivisions	21,901,046	624,990	251,847	22,274,189
Industrial and miscellaneous	6,917,504	139,054	93,065	6,963,493
Mortgage-backed securities	9,292,269	199,451	132,962	9,358,758
Redeemable preferred stock	3,748,900	75,768	52,135	3,772,533
Total fixed maturities	<u>45,673,598</u>	<u>1,041,748</u>	<u>530,118</u>	<u>46,185,228</u>
Perpetual preferred stock	2,290,755	46,905	5,380	2,332,280
Common stock	12,283,172	831,781	1,577,745	11,537,208
Total equity securities	<u>14,573,927</u>	<u>878,686</u>	<u>1,583,125</u>	<u>13,869,488</u>
Total	<u>\$ 60,247,525</u>	<u>1,920,434</u>	<u>2,113,243</u>	<u>60,054,716</u>

	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	<u>43,761,413</u>	<u>1,428,006</u>	<u>274,833</u>	<u>44,914,586</u>
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	<u>8,209,342</u>	<u>760,441</u>	<u>884,441</u>	<u>8,085,342</u>
Total	<u>\$ 51,970,755</u>	<u>2,188,447</u>	<u>1,159,274</u>	<u>52,999,928</u>

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

The following tables summarize, for all investments in an unrealized loss position at June 30, 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 June 30, 2015</u>						
U.S. government and government agencies	\$ 275,206	109	-	-	275,206	109
States, municipalities and political subdivisions	5,118,771	104,646	2,478,060	147,201	7,596,831	251,847
Industrial and miscellaneous	2,745,299	89,833	100,531	3,232	2,845,830	93,065
Mortgage-backed securities	2,858,810	78,125	478,475	54,837	3,337,285	132,962
Redeemable preferred stock	1,460,040	39,960	325,325	12,175	1,785,365	52,135
Total fixed maturities	12,458,126	312,673	3,382,391	217,445	15,840,517	530,118
Perpetual preferred stock	544,620	5,380	-	-	544,620	5,380
Common stock	8,122,561	942,269	956,624	635,476	9,079,185	1,577,745
Total equity securities	8,667,181	947,649	956,624	635,476	9,623,805	1,583,125
Total	\$ 21,125,307	1,260,322	4,339,015	852,921	25,464,322	2,113,243

	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

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

The following table summarizes, for all fixed maturities and equity securities reported at fair value for which fair value is less than 80% of amortized cost at June 30, 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 June 30, 2015</u>					
States, municipalities and political subdivisions	\$ -	-	-	36,786	36,786
Mortgage-backed securities	-	-	-	17,690	17,690
Common stock	291,224	276,282	-	403,420	970,926
Total:	\$ 291,224	276,282	-	457,896	1,025,402

**(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,

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

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.

*Short-Term Investments*

The Company's short-term investment instruments are priced based on net asset values. The assets' classifications within the fair value hierarchy are determined based on the lowest level input of the underlying investments that is significant to each instrument's individual measurement.

**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, 2015 and December 31, 2014.

	Level 1	Level 2	Level 3	Total
<u>As of June 30, 2015</u>				
U.S. government and government agencies	\$ 3,816,255	-	-	3,816,255
States, municipalities and political subdivisions	-	22,274,189	-	22,274,189
Industrial and miscellaneous	-	6,963,493	-	6,963,493
Mortgage-backed securities	-	9,358,758	-	9,358,758
Redeemable preferred stock	-	3,772,533	-	3,772,533
Total fixed maturities	<u>3,816,255</u>	<u>42,368,973</u>	-	<u>46,185,228</u>
Perpetual preferred stock	-	2,332,280	-	2,332,280
Common stock	<u>11,537,208</u>	-	-	<u>11,537,208</u>
Total equity securities	<u>11,537,208</u>	<u>2,332,280</u>	-	<u>13,869,488</u>
Short-term investments	-	<u>2,186,322</u>	-	<u>2,186,322</u>
Total	<u>\$ 15,353,463</u>	<u>46,887,575</u>	-	<u>62,241,038</u>

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

	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
<b>Total fixed maturities</b>	<b>3,834,915</b>	<b>41,079,671</b>	<b>-</b>	<b>44,914,586</b>
Perpetual preferred stock	-	2,256,930	-	2,256,930
Common stock	5,828,412	-	-	5,828,412
<b>Total equity securities</b>	<b>5,828,412</b>	<b>2,256,930</b>	<b>-</b>	<b>8,085,342</b>
Short-term investments	-	6,024,142	-	6,024,142
<b>Total</b>	<b>\$ 9,663,327</b>	<b>49,360,743</b>	<b>-</b>	<b>59,024,070</b>

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

**(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, 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 June 30,</u>						
Basic earnings per share	\$ 391,241	1,005,088	0.39	265,420	1,072,179	0.25
Effect of dilutive securities						
Stock options	-	-	-	-	12,360	(0.01)
<b>Diluted earnings per share</b>	<b>\$ 391,241</b>	<b>1,005,088</b>	<b>0.39</b>	<b>265,420</b>	<b>1,084,539</b>	<b>0.24</b>
	2015			2014		
	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	\$ 680,786	1,005,088	0.68	533,129	1,072,179	0.50
Effect of dilutive securities						
Stock options	-	-	-	-	12,468	(0.01)
<b>Diluted earnings per share</b>	<b>\$ 680,786</b>	<b>1,005,088</b>	<b>0.68</b>	<b>533,129</b>	<b>1,084,647</b>	<b>0.49</b>

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

**(5) Comprehensive Income**

The following tables present the changes in the Company's accumulated other comprehensive (loss) income for the three months and six months ended June 30, 2015 and 2014:

	2015		2014	
	Net Unrealized Gains and Losses	Total Accumulated Other Comprehensive Income (Loss)	Net Unrealized Gains and Losses	Total Accumulated Other Comprehensive Income
<b><u>Three months ended June 30,</u></b>				
Balance as of April 1	\$ 344,824	344,824	527,916	527,916
Other comprehensive income before reclassifications to earnings, net	(1,168,678)	(1,168,678)	457,241	457,241
Reclassifications, net	(21,903)	(21,903)	(63,285)	(63,285)
Other comprehensive income, net of taxes	(1,190,581)	(1,190,581)	393,956	393,956
Balance as of June 30	\$ <u>(845,757)</u>	<u>(845,757)</u>	<u>921,872</u>	<u>921,872</u>

	2015		2014	
	Net Unrealized Gains and Losses	Total Accumulated Other Comprehensive Income (Loss)	Net Unrealized Gains and Losses	Total Accumulated Other Comprehensive Income (Loss)
<b><u>Six months ended June 30,</u></b>				
Balance as of January 1	\$ 285,102	285,102	(61,928)	(61,928)
Other comprehensive income before reclassifications to earnings, net	(1,167,357)	(1,167,357)	1,137,575	1,137,575
Reclassifications, net	36,498	36,498	(153,775)	(153,775)
Other comprehensive income, net of taxes	(1,130,859)	(1,130,859)	983,800	983,800
Balance as of June 30	\$ <u>(845,757)</u>	<u>(845,757)</u>	<u>921,872</u>	<u>921,872</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 six months ended June 30, 2015 and 2014.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Realized capital gains and losses reclassified to net earnings during the period	\$ 33,188	95,886	(55,300)	232,992
Income taxes	11,285	32,601	(18,802)	79,217
Reclassifications, net	\$ <u>21,903</u>	<u>63,285</u>	<u>(36,498)</u>	<u>153,775</u>

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

The following table presents the pretax components of other comprehensive income and loss and related income tax expense for the three months and six months ended June 30, 2015 and 2014.

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Unrealized holding (decrease) increase arising during the period, net of taxes	\$ (868,113)	457,241	(843,007)	1,137,575
Valuation allowance	(300,565)	-	(324,350)	-
Realized gains and losses reclassified to net earnings during the period	(21,903)	(63,285)	36,498	(153,775)
Reclassifications, net	\$ (1,190,581)	393,956	(1,130,859)	983,800

**(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, 2015 there were no longer any stock options outstanding. 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 June 30, 2015 or December 31, 2014.

Holder of stock options exercised 47,000 options and let expire 5,000 options through June 30, 2015. Holders of stock options exercised 29,500 options and let expire 20,000 options through June 30, 2014. Cash received from stock options exercised through June 30, 2015 and 2014 was \$622,750 and \$360,490, respectively. Cash paid to settle shares issued pursuant to stock options exercised through June 30, 2015 and 2014 was \$893,000 and \$649,000, respectively.

The Company has realized excess tax benefit from options exercised of \$242,819 in retained earnings through June 30, 2015 and recognized an offsetting charge to income tax expense for the same period. The Company currently maintains an unrealized benefit of \$211,879, after the effect of income taxes.

**(7) Subsequent Events**

The Company drew the remaining \$2,020,117 from its \$8,700,000 credit facility in July 2015. The July funding of the term loan triggers the repayment of principal evenly over an eighty-four month period beginning in August 2015. Interest on the term loan accrues at one-month LIBOR plus 225 basis points and is payable monthly. There were no other subsequent events requiring adjustment to the consolidated financial statements (unaudited) or disclosure therein through July 23, 2015, the date the Company's consolidated financial statements (unaudited) were issued.