



ACMAT CORPORATION

ACMAT CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements

September 30, 2015

(Unaudited)

ACMAT CORPORATION AND SUBSIDIARIES
September 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 September 30, 2015 and December 31, 2014

Assets	September 30, 2015 (Unaudited)	December 31, 2014
Investments:		
Fixed maturities (Amortized cost of \$44,231,208 in 2015 and \$43,761,413 in 2014)	\$ 44,853,501	44,914,586
Equity securities (Historical cost of \$14,410,911 in 2015 and \$8,209,342 in 2014)	12,057,446	8,085,342
Short-term investments	2,593,224	6,024,142
Total investments	59,504,171	59,024,070
Cash and cash equivalents	2,676,782	5,793,124
Accrued interest receivable	455,194	328,839
Premiums receivable, net of allowance for doubtful accounts of \$25,000 as of September 30, 2015 and \$19,802 as of December 31, 2014	19,978	41,746
Other receivables	179,128	209,560
Reinsurance recoverable	1,894,402	1,813,184
Prepaid expenses	231,579	130,341
Income taxes receivable	62,390	-
Deferred income taxes, net	165,024	-
Property and equipment, net	5,086,272	5,158,921
Deferred policy acquisition costs	104,670	90,809
Ceded unearned premiums	109,748	93,657
Other assets	2,067,378	1,093,502
Intangibles	1,920,360	1,920,360
Total assets	\$ 74,477,076	75,698,113
Liabilities and Stockholders' Equity		
Reserves for losses and loss adjustment expenses	\$ 14,678,258	14,927,292
Unearned premiums	753,764	643,159
Income taxes payable	-	1,184
Deferred income taxes, net	-	218,401
Collateral held	18,082,981	18,036,537
Reinsurance premiums payable	62,380	39,594
Accounts payable and accrued liabilities	1,146,966	1,229,687
Long-term debt	9,915,179	8,054,883
Total liabilities	44,639,528	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; 594,782 shares issued and outstanding)	594,782	647,682
Retained earnings	31,235,309	31,256,626
Accumulated other comprehensive (loss) income	(2,350,509)	285,102
Total stockholders' equity	29,837,548	32,547,376
Total liabilities and stockholders' equity	\$ 74,477,076	75,698,113

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, 2015 and 2014

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Revenues				
Premiums	\$ 483,634	451,480	1,246,513	1,412,794
Net investment income	645,092	534,526	1,831,524	1,636,095
Net realized capital gains	212,615	244,977	881,506	937,187
Fee and other income	27,326	20,597	116,707	91,516
Total revenues	<u>1,368,667</u>	<u>1,251,580</u>	<u>4,076,250</u>	<u>4,077,592</u>
Expenses				
Incurring losses and loss adjustment expenses	(243,992)	45,148	(417,704)	141,279
Amortization of deferred acquisition costs	79,079	76,308	201,425	226,225
General and administrative expenses	665,512	791,479	2,306,858	2,545,467
Interest expense	76,218	62,399	210,781	181,653
Total expenses	<u>576,817</u>	<u>975,334</u>	<u>2,301,360</u>	<u>3,094,624</u>
Earnings before income taxes	791,850	276,246	1,774,890	982,968
Provision for income taxes	225,280	27,616	527,534	201,209
Net earnings	<u>\$ 566,570</u>	<u>248,630</u>	<u>1,247,356</u>	<u>781,759</u>
Earnings per-share, basic and diluted	\$ 0.57	\$ 0.23	\$ 1.27	\$ 0.73

See Notes to Consolidated Financial Statements (Unaudited)

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Net earnings	\$ 566,570	248,630	1,247,356	781,759
Change in unrealized gains and losses on investment securities	(1,538,372)	(847,050)	(2,760,356)	643,556
Income tax (benefit) expense	(33,620)	(287,997)	(124,745)	218,809
Other comprehensive (loss) income, net of taxes	(1,504,752)	(559,053)	(2,635,611)	424,747
Comprehensive (loss) income	\$ (938,182)	(310,423)	(1,388,255)	1,206,506

See Notes to Consolidated Financial Statements (Unaudited)

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity (Unaudited)
For the Nine Months Ended September 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	-	-	-	424,747	424,747
Net earnings	-	-	781,759	-	781,759
Total comprehensive income	<u>-</u>	<u>-</u>	<u>781,759</u>	<u>424,747</u>	<u>1,206,506</u>
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>
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	-	-	-	(2,635,611)	(2,635,611)
Net earnings	-	-	1,247,356	-	1,247,356
Total comprehensive loss	<u>-</u>	<u>-</u>	<u>1,247,356</u>	<u>(2,635,611)</u>	<u>(1,388,255)</u>
Excess benefit from stock options exercised	-	-	459,899	-	459,899
Issuance of 47,000 shares of Class A Stock pursuant to stock options	-	47,000	575,750	-	622,750
Acquisition and retirement of 99,900 shares of Class A Stock	-	(99,900)	(2,304,322)	-	(2,404,222)
Balance as of September 30, 2015	<u>\$ 357,966</u>	<u>594,782</u>	<u>31,235,309</u>	<u>(2,350,509)</u>	<u>29,837,548</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, 2015 and 2014

	2015	2014
Cash flows from operating activities		
Net earnings	\$ 1,247,356	781,759
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	172,903	180,589
Net realized capital gains	(881,506)	(937,187)
Deferred income tax expense	(258,681)	76,831
Changes in:		
Accrued interest receivable	(126,355)	(37,615)
Receivables	52,200	111,080
Reinsurance recoverable	(81,218)	(24,082)
Income taxes receivable	(63,574)	26,711
Deferred policy acquisition costs	(13,861)	2,537
Prepaid expenses and other assets	(131,556)	247,771
Reserves for losses and loss adjustment expenses	(249,034)	(177,493)
Unearned premiums, net	94,515	(51,707)
Collateral held	46,444	(814,532)
Reinsurance premiums payable	22,786	878
Accounts payable and accrued liabilities	(82,722)	(27,917)
Net cash used for operating activities	(252,303)	(642,377)
Cash flows from investing activities		
Proceeds from investments sold, matured or redeemed:		
Fixed maturities sold	3,672,811	3,617,059
Maturities and redemptions	7,689,168	4,775,759
Equity securities	39,562,070	48,886,538
Purchases of:		
Fixed maturities	(11,782,974)	(5,797,728)
Equity securities	(44,976,437)	(50,544,846)
Short-term investments, net	3,430,918	(1,695,352)
Unsettled securities transactions	(943,558)	-
Capital expenditures	(54,760)	(58,860)
Net cash used for investing activities	(3,402,762)	(817,430)
Cash flows from financing activities		
Funds borrowed	2,020,117	1,700,000
Repayments of long-term debt	(159,821)	(889,583)
Excess tax benefit realized pursuant to stock options exercised	459,899	176,679
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	(2,404,222)	(2,478,440)
Net cash provided by (used for) financing activities	538,723	(1,133,354)
Net change in cash and cash equivalents	(3,116,342)	(2,593,161)
Cash and cash equivalents, beginning of period	5,793,124	5,480,724
Cash and cash equivalents, end of period	\$ 2,676,782	2,887,563
<u>Supplemental disclosure of cash flows information:</u>		
Cash paid for income taxes	389,890	23,792
Cash paid for interest	179,970	152,662

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 September 30, 2015 and December 31, 2014 were as follows:

	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
<u>As of September 30, 2015</u>				
U.S. government and government agencies	\$ 4,037,902	584	3,097	4,035,389
States, municipalities and political subdivisions	20,676,682	684,146	156,310	21,204,518
Industrial and miscellaneous	6,963,975	147,992	204,070	6,907,897
Mortgage-backed securities	8,753,749	279,540	87,463	8,945,826
Redeemable preferred stock	3,798,900	43,576	82,605	3,759,871
Total fixed maturities	44,231,208	1,155,838	533,545	44,853,501
Perpetual preferred stock	2,040,755	39,585	3,520	2,076,820
Common stock	12,370,156	626,138	3,015,668	9,980,626
Total equity securities	14,410,911	665,723	3,019,188	12,057,446
Total	\$ 58,642,119	1,821,561	3,552,733	56,910,947

	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

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

The following tables summarize, for all investments in an unrealized loss position at September 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 September 30, 2015</u>						
U.S. government and government agencies	\$ 2,860,473	3,097	-	-	2,860,473	3,097
States, municipalities and political subdivisions	2,559,292	37,717	3,002,442	118,593	5,561,734	156,310
Industrial and miscellaneous	2,016,013	58,671	835,131	145,399	2,851,144	204,070
Mortgage-backed securities	1,331,289	34,628	591,493	52,835	1,922,782	87,463
Redeemable preferred stock	1,180,020	69,980	449,875	12,625	1,629,895	82,605
Total fixed maturities	9,947,087	204,093	4,878,941	329,452	14,826,028	533,545
Perpetual preferred stock	196,480	3,520	-	-	196,480	3,520
Common stock	5,848,092	1,457,972	2,318,966	1,557,696	8,167,058	3,015,668
Total equity securities	6,044,572	1,461,492	2,318,966	1,557,696	8,363,538	3,019,188
Total	\$ 15,991,659	1,665,585	7,197,907	1,887,148	23,189,566	3,552,733

	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 September 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 September 30, 2015</u>					
Industrial and miscellaneous	\$ 94,937	-	-	-	94,937
Mortgage-backed securities	25,037	-	-	-	25,037
Common stock	1,345,691	250,294	268,099	617,280	2,481,364
Total:	\$ <u>1,465,665</u>	<u>250,294</u>	<u>268,099</u>	<u>617,280</u>	<u>2,601,338</u>

(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 September 30, 2015 and December 31, 2014.

	Level 1	Level 2	Level 3	Total
<u>As of September 30, 2015</u>				
U.S. government and government agencies	\$ 4,035,389	-	-	4,035,389
States, municipalities and political subdivisions	-	21,204,518	-	21,204,518
Industrial and miscellaneous	-	6,907,897	-	6,907,897
Mortgage-backed securities	-	8,945,826	-	8,945,826
Redeemable preferred stock	-	3,759,871	-	3,759,871
Total fixed maturities	4,035,389	40,818,112	-	44,853,501
Perpetual preferred stock	-	2,076,820	-	2,076,820
Common stock	9,980,626	-	-	9,980,626
Total equity securities	9,980,626	2,076,820	-	12,057,446
Short-term investments	-	2,593,224	-	2,593,224
Total	\$ 14,016,015	45,488,156	-	59,504,171

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
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.

(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, 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 September 30,</u>						
Basic earnings per share	\$ 566,570	997,304	0.57	248,630	1,063,846	0.23
Effect of dilutive securities						
Stock options	-	-	-	-	12,020	-
Diluted earnings per share	\$ 566,570	997,304	0.57	248,630	1,075,866	0.23

	2015			2014		
	Net Earnings	Weighted Average Shares Outstanding	Net Earnings Per Share	Net Earnings	Weighted Average Shares Outstanding	Net Earnings Per Share
<u>Nine Months Ended September 30,</u>						
Basic earnings per share	\$ 1,247,356	981,991	1.27	781,759	1,063,846	0.73
Effect of dilutive securities						
Stock options	-	-	-	-	12,318	-
Diluted earnings per share	\$ 1,247,356	981,991	1.27	781,759	1,076,164	0.73

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 nine months ended September 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
<u>Three months ended September 30,</u>				
Balance as of July 1	\$ (845,757)	(845,757)	921,872	921,872
Other comprehensive income before reclassifications to earnings, net	(1,432,733)	(1,432,733)	(507,311)	(507,311)
Reclassifications, net	(72,019)	(72,019)	(51,742)	(51,742)
Other comprehensive (loss), net of taxes	(1,504,752)	(1,504,752)	(559,053)	(559,053)
Balance as of September 30	\$ <u>(2,350,509)</u>	<u>(2,350,509)</u>	<u>362,819</u>	<u>362,819</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)
<u>Nine months ended September 30,</u>				
Balance as of January 1	\$ 285,102	285,102	(61,928)	(61,928)
Other comprehensive income before reclassifications to earnings, net	(2,600,090)	(2,600,090)	630,264	630,264
Reclassifications, net	(35,521)	(35,521)	(205,517)	(205,517)
Other comprehensive (loss) income, net of taxes	(2,635,611)	(2,635,611)	424,747	424,747
Balance as of September 30	\$ <u>(2,350,509)</u>	<u>(2,350,509)</u>	<u>362,819</u>	<u>362,819</u>

The following table presents the pretax and related income tax expense component of the amounts reclassified from the Company's accumulated other comprehensive (loss) income to the Company's consolidated statement of earnings for the three months and nine months ended September 30, 2015 and 2014.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net realized capital gains reclassified to net earnings during the period	\$ 109,121	78,398	53,820	311,390
Income taxes	37,102	26,656	18,299	105,873
Reclassifications, net	\$ <u>72,019</u>	<u>51,742</u>	<u>35,521</u>	<u>205,517</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 nine months ended September 30, 2015 and 2014.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Unrealized holding (decrease) increase arising during the period, net of taxes	\$ (943,307)	(507,311)	(1,786,314)	630,264
Valuation allowance	(489,426)	-	(813,776)	-
Realized gains and losses reclassified to net earnings during the period	(72,019)	(51,742)	(35,521)	(205,517)
Reclassifications, net	\$ (1,504,752)	(559,053)	(2,635,611)	424,747

(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, 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 September 30, 2015 or December 31, 2014.

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

The Company has realized excess tax benefit from options exercised of \$459,899 in retained earnings through the nine months ended September 30, 2015 and recognized an offsetting charge to income tax expense for the same period. The Company currently maintains an unrealized benefit of \$18,264, 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 October 22, 2015, the date the Company's consolidated financial statements (unaudited) were issued.