



ACMAT CORPORATION

ACMAT CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements

June 30, 2018

(Unaudited)

ACMAT CORPORATION AND SUBSIDIARIES
June 30, 2018

TABLE OF CONTENTS

	<u>Page</u>
Consolidated Balance Sheets	1
Consolidated Statements of Earnings and Losses (Unaudited)	2
Consolidated Statements of Comprehensive Income and Loss (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, 2018 and December 31, 2017

Assets	June 30, 2018 (Unaudited)	December 31, 2017
Investments:		
Fixed maturities (Amortized cost of \$42,967,390 in 2018 and \$42,986,429 in 2017)	\$ 42,636,688	43,502,013
Equity securities (Historical cost of \$5,217,904 in 2018 and \$5,179,844 in 2017)	5,363,162	5,544,274
Short-term investments	1,679,117	2,398,074
Total investments	49,678,967	51,444,361
Cash and cash equivalents	1,232,598	3,383,091
Accrued interest receivable	414,999	413,885
Premiums receivable, net of allowance for doubtful accounts of \$12,000 as of June 30, 2018 and December 31, 2017	60,347	57,389
Other receivables	55,934	73,355
Reinsurance recoverable	2,112,916	2,105,259
Prepaid expenses	262,623	121,821
Income taxes receivable	630,802	620,712
Deferred income taxes, net	317,890	51,221
Property and equipment, net	4,608,426	4,705,026
Deferred policy acquisition costs	122,403	108,333
Ceded unearned premiums	83,734	75,356
Other assets	1,400,666	1,235,664
Intangibles	1,920,360	1,920,360
Total assets	\$ 62,902,665	66,315,833
Liabilities and Stockholders' Equity		
Reserves for losses and loss adjustment expenses	\$ 13,789,609	13,917,155
Unearned premiums	575,095	517,557
Collateral held	13,929,160	15,307,778
Reinsurance premiums payable	16,022	19,003
Accounts payable and accrued liabilities	933,478	1,659,852
Long-term debt	4,567,649	4,927,115
Total liabilities	33,811,013	36,348,460
Common Stock (No par value; 3,500,000 shares authorized; 356,946 shares issued and outstanding)	356,746	356,746
Class A Stock (No par value; 10,000,000 shares authorized; 471,854 shares issued and outstanding)	471,854	474,854
Retained earnings	28,409,553	28,440,562
Accumulated other comprehensive (loss) income	(146,501)	695,211
Total stockholders' equity	29,091,652	29,967,373
Total liabilities and stockholders' equity	\$ 62,902,665	66,315,833

See Notes to Consolidated Financial Statements (Unaudited)

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Earnings and Losses (Unaudited)
For the Three Months and Six Months Ended June 30, 2018 and 2017

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Revenues				
Premiums	\$ 220,118	302,180	449,336	501,277
Net investment income	468,579	648,899	945,568	1,194,392
Net realized capital gains and losses	(137,888)	157,427	79,147	523,779
Fee and other income	14,699	16,181	67,585	56,459
Total revenues	<u>565,508</u>	<u>1,124,687</u>	<u>1,541,636</u>	<u>2,275,907</u>
Expenses				
Incurred losses and loss adjustment expenses	(115,107)	47,902	(78,771)	79,463
Amortization of deferred acquisition costs	56,332	62,309	115,419	92,060
General and administrative expenses	684,564	807,715	1,377,693	1,633,721
Interest expense	58,017	69,286	111,710	136,468
Total expenses	<u>683,806</u>	<u>987,212</u>	<u>1,526,051</u>	<u>1,941,712</u>
Earnings and losses before income taxes	(118,298)	137,475	15,585	334,195
Income tax (benefit) expense	(48,433)	17,263	(13,406)	50,015
Net earnings and losses	<u>\$ (69,865)</u>	<u>120,212</u>	<u>28,991</u>	<u>284,180</u>
Earnings and losses per-share	\$ (0.08)	\$ 0.14	\$ 0.03	\$ 0.33

See Notes to Consolidated Financial Statements (Unaudited)

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income and Loss (Unaudited)
For the Three Months and Six Months Ended June 30, 2018 and 2017

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Net earnings and losses	\$ (69,865)	120,212	28,991	284,180
Change in unrealized gains and losses on investment securities	80,909	492,159	(1,066,256)	545,279
Income tax expense (benefit)	16,361	104,243	(224,544)	104,243
Other comprehensive income and loss, net of taxes	64,548	387,916	(841,712)	441,036
Comprehensive (loss) income	\$ (5,317)	508,128	(812,721)	725,216

See Notes to Consolidated Financial Statements (Unaudited)

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity (Unaudited)
For the Six Months Ended June 30, 2018 and 2017

	<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, 2016	\$ 356,746	508,349	29,196,532	(238,681)	29,822,946
Comprehensive income					
Net change in unrealized capital gains and losses on investment securities, net of reclassification	-	-	-	441,036	441,036
Net earnings	-	-	284,180	-	284,180
Comprehensive income	-	-	284,180	441,036	725,216
Acquisition and retirement of 3,000 shares of Class A Stock	-	(3,000)	(60,000)	-	(63,000)
Balance as of June 30, 2017	<u>\$ 356,746</u>	<u>505,349</u>	<u>29,420,712</u>	<u>202,355</u>	<u>30,485,162</u>
Balance as of December 31, 2017	\$ 356,746	474,854	28,440,562	695,211	29,967,373
Comprehensive income					
Net change in unrealized capital gains and losses on investment securities, net of reclassification	-	-	-	(841,712)	(841,712)
Net earnings	-	-	28,991	-	28,991
Comprehensive loss	-	-	28,991	(841,712)	(812,721)
Acquisition and retirement of 3,000 shares of Class A Stock	-	(3,000)	(60,000)	-	(63,000)
Balance as of June 30, 2018	<u>\$ 356,746</u>	<u>471,854</u>	<u>28,409,553</u>	<u>(146,501)</u>	<u>29,091,652</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, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Net earnings	\$ 28,991	284,180
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	208,284	177,778
Net realized capital gains	(79,147)	(523,779)
Deferred income tax expense	(42,755)	(6,562)
Changes in:		
Accrued interest receivable	(1,114)	1,386
Receivables	14,463	4,328
Reinsurance recoverable	(7,657)	(8,543)
Income taxes receivable	(10,090)	22,000
Deferred policy acquisition costs	(14,070)	(12,256)
Prepaid expenses and other assets	176,056	(233,805)
Reserves for losses and loss adjustment expenses	(127,546)	(213,373)
Unearned premiums, net	49,160	(73,284)
Collateral held	(1,378,618)	(1,686,468)
Reinsurance premiums payable	(2,981)	(25,887)
Accounts payable and accrued liabilities	(726,374)	(96,970)
Net cash used for operating activities	(1,913,398)	(2,391,255)
Cash flows from investing activities		
Proceeds from investments sold, matured or redeemed:		
Fixed maturities sold	3,210,707	4,412,397
Maturities and redemptions	1,240,578	2,847,101
Equity securities	3,182,304	2,683,799
Purchases of:		
Fixed maturities	(4,927,139)	(3,675,063)
Equity securities	(3,238,260)	(1,978,518)
Short-term investments, net	718,957	(2,666,984)
Capital expenditures	(145)	(4,377)
Net cash provided by investing activities	187,002	1,618,355
Cash flows from financing activities		
Repayments of long-term debt	(361,097)	(658,928)
Acquisition and retirement of Class A shares	(63,000)	(63,000)
Net cash used for financing activities	(424,097)	(721,928)
Net change in cash and cash equivalents	(2,150,493)	(1,494,828)
Cash and cash equivalents, beginning of period	3,383,091	3,432,485
Cash and cash equivalents, end of period	\$ 1,232,598	1,937,657
<u>Supplemental disclosure of cash flows information:</u>		
Cash paid for income taxes	39,440	34,577
Cash paid for interest	105,577	134,749

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, 2017.

Accounting Standards Not Yet Adopted

Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued updated guidance to address the recognition, measurement, presentation, and disclosure of certain financial instruments. The updated guidance requires equity investments, except those accounted for under the equity method of accounting, that have readily determinable fair value to be measured at fair value with changes in fair value recognized in net earnings. Equity investments that do not have readily determinable fair values may be remeasured at fair value either upon the occurrence of an observable price change or upon identification of an impairment. A qualitative assessment for impairment is required for equity investments without readily determinable fair values. The updated guidance is effective for annual periods beginning after December 15, 2018 and will require recognition of a cumulative effect adjustment at adoption. The Company will not be able to determine the impact that the updated guidance will have on its results of operations until the updated guidance is adopted, but does not currently expect the adoption of this guidance to impact its financial position or liquidity.

Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued updated guidance for the accounting for credit losses for financial instruments. The updated guidance applies a new credit loss model (current expected credit losses or CECL) for determining credit-related impairments for financial instruments measured at amortized cost (i.e. reinsurance recoverables) and requires an entity to estimate the credit losses expected over the life of an exposure or pool of exposures. The estimate of expected credit losses should consider historical information, current information, as well as reasonable and supportable forecasts, including estimates of prepayments. The expected credit losses, and subsequent adjustments to such losses, will be recorded through an allowance account that is deducted from the amortized cost basis of the financial asset, with the net carrying value of the financial asset presented on the consolidated balance sheet at the amount expected to be collected.

The updated guidance also amends the current other-than-temporary impairment model for available-for-sale debt securities by requiring the recognition of impairments relating to credit losses through an allowance account and limits the amount of credit loss to the difference between a security's amortized cost basis and its fair value. In addition, the length of time a security has been in an unrealized loss position will no longer impact the determination of whether a credit loss exists.

The updated guidance is effective for reporting periods beginning after December 15, 2021. Early adoption is permitted for reporting periods beginning after December 15, 2018. The Company will not be able to determine the impact that the updated guidance will have on its results of operations, financial position or liquidity until the updated guidance is adopted.

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, 2018 and December 31, 2017 were as follows:

<u>As of June 30, 2018</u>	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
U.S. government and government agencies	\$ 3,702,401	----	14,365	3,688,036
States, municipalities and political subdivisions	26,599,166	227,500	517,186	26,309,480
Industrial and miscellaneous	6,393,639	37,888	162,032	6,269,495
Mortgage-backed securities	4,061,870	126,330	28,224	4,159,976
Redeemable preferred stock	2,210,314	20,851	21,464	2,209,701
Total fixed maturities	<u>42,967,390</u>	<u>412,569</u>	<u>743,271</u>	<u>42,636,688</u>
Perpetual preferred stock	1,225,861	20,066	13,889	1,232,038
Common stock	3,992,043	527,380	388,299	4,131,124
Total equity securities	<u>5,217,904</u>	<u>547,446</u>	<u>402,188</u>	<u>5,363,162</u>
Total	<u>\$ 48,185,294</u>	<u>960,015</u>	<u>1,145,459</u>	<u>47,999,850</u>

<u>As of December 31, 2017</u>	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
U.S. government and government agencies	\$ 3,501,596	----	22,718	3,478,878
States, municipalities and political subdivisions	26,707,046	507,622	219,882	26,994,786
Industrial and miscellaneous	5,957,186	169,163	66,869	6,059,480
Mortgage-backed securities	4,359,308	138,835	26,572	4,471,571
Redeemable preferred stock	2,461,293	45,167	9,162	2,497,298
Total fixed maturities	<u>42,986,429</u>	<u>860,787</u>	<u>345,203</u>	<u>43,502,013</u>
Perpetual preferred stock	1,175,861	38,206	3,801	1,210,266
Common stock	4,003,983	625,163	295,138	4,334,008
Total equity securities	<u>5,179,844</u>	<u>663,369</u>	<u>298,939</u>	<u>5,544,274</u>
Total	<u>\$ 48,166,273</u>	<u>1,524,156</u>	<u>644,142</u>	<u>49,046,287</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, 2018 and December 31, 2017, the aggregate fair value and gross unrealized loss by length of time those securities have been continuously in an unrealized loss position:

	<u>Less than 12 months</u>		<u>Greater than 12 months</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>
<u>As of June 30, 2018</u>						
U.S. government and government agencies	\$ 982,816	4,199	2,705,220	10,166	3,688,036	14,365
States, municipalities and political subdivisions	11,142,065	220,104	5,254,246	297,082	16,396,314	517,186
Industrial and miscellaneous	3,736,465	128,302	497,649	33,730	4,234,114	162,032
Mortgage-backed securities	262,251	6,692	569,639	21,532	831,890	28,224
Redeemable preferred stock	548,655	19,487	41,397	1,977	590,052	21,464
Total fixed maturities	16,672,252	378,784	9,068,154	364,487	25,740,406	743,271
Perpetual preferred stock	586,972	13,889	----	----	586,972	13,889
Common stock	1,955,780	288,562	341,526	99,737	2,297,306	388,299
Total equity securities	2,542,752	302,451	341,526	99,737	2,884,278	402,188
Total	\$ 19,215,004	681,235	9,409,680	464,224	28,624,684	1,145,459

	<u>Less than 12 months</u>		<u>Greater than 12 months</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>
<u>As of December 31, 2017</u>						
U.S. government and government agencies	\$ 742,614	3,533	2,736,264	19,185	3,478,878	22,718
States, municipalities and political subdivisions	4,511,616	48,133	5,914,150	171,749	10,425,766	219,882
Industrial and miscellaneous	621,365	52,938	395,117	13,931	1,016,482	66,869
Mortgage-backed securities	320,973	6,897	579,819	19,675	900,792	26,572
Redeemable preferred stock	355,800	6,700	166,656	2,462	522,456	9,162
Total fixed maturities	6,552,368	118,201	9,792,006	227,002	16,344,374	345,203
Perpetual preferred stock	72,060	3,801	-	-	72,060	3,801
Common stock	1,603,690	224,687	284,313	70,451	1,888,003	295,138
Total equity securities	1,675,750	228,488	284,313	70,451	1,960,063	298,939
Total	\$ 8,228,118	346,689	10,076,319	297,453	18,304,437	644,142

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, 2018, 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, 2018</u>					
Common stock	\$ 68,117	20,880	115,882	2,803	207,682
Total	\$ 68,117	20,880	115,882	2,803	207,682

(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.

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 instrument was sold in an immediate sale (i.e., 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.

The Company utilizes one pricing service as its primary source for obtaining pricing information for substantially all of its financial instruments that are carried at fair value. In the event prices are not available from the primary pricing service, secondary pricing services are used to obtain pricing information based on a price source hierarchy. The Company then uses its third-party investment accounting service provider to analyze prices received from the pricing services to determine that they represent a reasonable estimate of fair value. Management employs additional analysis (including a weekly review of fair value changes and comparison of price changes to external indices and trends) to assess the reasonableness of prices provided by pricing services. The following section describes the valuation methods underlying each type of financial instrument held by the Company that is carried at fair value.

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

Fixed Maturities

The pricing service utilizes market quotations for fixed maturity securities that have quoted prices in active markets. Because 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 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 the 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 perpetual 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 perpetual preferred stocks as it does for fixed maturities. The Company includes the estimate in the amount disclosed in Level 2.

The Company holds certain mutual funds that are priced based on net asset values, which are the basis for current transactions on a public exchange and represent fair value. 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.

Short-Term Investments

The Company's short-term investment instruments are priced based on net asset values, which are the basis for current transactions and represent fair value. 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, 2018 and December 31, 2017.

<u>As of June 30, 2018</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. government and government agencies	\$ 3,688,036	---	---	3,688,036
States, municipalities and political subdivisions	---	26,309,480	---	26,309,480
Industrial and miscellaneous	---	6,269,495	---	6,269,495
Mortgage-backed securities	---	4,159,976	---	4,159,976
Redeemable preferred stock	---	2,209,701	---	2,209,701
Total fixed maturities	<u>3,688,036</u>	<u>38,948,652</u>	---	<u>42,636,688</u>
Perpetual preferred stock	---	1,232,038	---	1,232,038
Common stock	<u>4,097,391</u>	---	---	<u>4,097,391</u>
Total equity securities	<u>4,097,391</u>	<u>1,232,038</u>	---	<u>5,329,429</u>
Short-term investments	---	<u>1,679,117</u>	---	<u>1,679,117</u>
Total	<u>\$ 7,785,427</u>	<u>41,859,807</u>	---	<u>49,645,234</u>

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

	Level 1	Level 2	Level 3	Total
<u>As of December 31, 2017</u>				
U.S. government and government agencies	\$ 3,478,878	-	-	3,478,878
States, municipalities and political subdivisions	-	26,994,786	-	26,994,786
Industrial and miscellaneous	-	6,059,480	-	6,059,480
Mortgage-backed securities	-	4,471,571	-	4,471,571
Redeemable preferred stock	-	2,497,298	-	2,497,298
Total fixed maturities	3,478,878	40,023,135	-	43,502,013
Perpetual preferred stock	-	1,210,266	-	1,210,266
Common stock	4,297,233	-	-	4,297,233
Total equity securities	4,297,233	1,210,266	-	5,507,499
Short-term investments	-	2,398,074	-	2,398,074
Total assets:	\$ 7,776,111	43,631,475	-	51,407,586
Payable for securities	169,458	312,325	-	481,783
Total liabilities:	\$ 169,458	312,325	-	481,783

There were no significant transfers between Level 1 and 2 or from level 3 in 2018 or 2017. Assets priced using net asset value totaled \$33,733 at June 30, 2018 and \$36,775 at December 31, 2017.

(4) Long-Term Debt

Long-term debt as of June 30, 2018 and December 31, 2017 is as follows:

	June 30, 2018	December 31, 2017
Term loan	\$ 3,476,403	3,800,000
Mortgage note	1,112,500	1,150,000
Principal outstanding	4,588,903	4,950,000
Unamortized loan costs	21,254	22,885
Long-term debt:	\$ 4,567,649	4,927,115

(5) Earnings and Losses Per-Share

The following is a reconciliation of the numerators and denominators of the earnings and losses per-share computations for the three months and six months ended June 30, 2018 and 2017:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Net earnings and losses	\$ (69,865)	120,212	28,991	284,180
Weighted average shares outstanding	828,600	862,721	828,633	939,278
Earnings and losses per-share	\$ (0.08)	0.14	0.03	0.33

There were no dilutive instruments at June 30, 2018 and 2017.

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

(6) Comprehensive Income and Loss

The following tables present the changes in the Company's accumulated other comprehensive income and loss for the three months and six months ended June 30, 2018 and 2017:

	2018		2017	
	Net Unrealized Gains and Losses	Total Accumulated Other Comprehensive Income(Loss)	Net Unrealized Gains and Losses	Total Accumulated Other Comprehensive Income(Loss)
<u>Three months ended June 30,</u>				
Balance, as of April 1	\$ (211,049)	(211,049)	(185,561)	(185,561)
Other comprehensive income before reclassifications to earnings, net	175,637	175,637	274,876	274,876
Reclassifications, net	<u>(111,089)</u>	<u>(111,089)</u>	<u>113,040</u>	<u>113,040</u>
Other comprehensive income, net of taxes	<u>64,548</u>	<u>64,548</u>	<u>387,916</u>	<u>387,916</u>
Balance, as of June 30	<u>\$ (146,501)</u>	<u>(146,501)</u>	<u>202,355</u>	<u>202,365</u>

	2018		2017	
	Net Unrealized Gains and Losses	Total Accumulated Other Comprehensive Income(Loss)	Net Unrealized Gains and Losses	Total Accumulated Other Comprehensive Income(Loss)
<u>Six months ended June 30,</u>				
Balance, as of January 1	\$ 695,211	695,211	(238,681)	(238,681)
Other comprehensive income before reclassifications to earnings, net	(888,290)	(888,290)	95,209	95,209
Reclassifications, net	<u>46,578</u>	<u>46,578</u>	<u>345,827</u>	<u>345,827</u>
Other comprehensive (loss) income, net of taxes	<u>(841,712)</u>	<u>(841,712)</u>	<u>441,036</u>	<u>441,036</u>
Balance, as of June 30	<u>\$ (146,501)</u>	<u>(146,501)</u>	<u>202,355</u>	<u>202,355</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 and loss to the Company's consolidated statement of earnings and losses for the three months and six months ended June 30, 2018 and 2017.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Realized losses and gains reclassified to net earnings during the period	\$ (140,620)	171,273	58,959	523,980
Income tax (benefit) expense	<u>(29,531)</u>	<u>58,233</u>	<u>12,381</u>	<u>178,153</u>
Reclassifications, net	<u>\$ (111,089)</u>	<u>113,040</u>	<u>46,578</u>	<u>345,827</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, 2018 and 2017.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Unrealized holdings increase arising during the period, net of income taxes	\$ (59,080)	662,588	(1,006,666)	1,068,425
Tax expense on unrealized holding gains and losses arising during period	12,539	(225,279)	211,532	(363,264)
Change in valuation allowance	----	63,647	----	81,702
Less: Reclassification adjustment for gains included in earnings, net of income taxes	111,089	(113,040)	(46,578)	(345,827)
Other comprehensive income (loss), net	\$ <u>64,548</u>	<u>387,916</u>	<u>(841,712)</u>	<u>441,036</u>

(7) Gain Contingency

In June 2018, ACSTAR initiated commutation of its reinsurance treaties covering surety and casualty risks underwritten through April 30, 2012. ACSTAR's reinsurance counterparties will be released from their obligation to provide reinsurance coverage upon receipt of commutation proceeds by ACSTAR. Per the terms of the treaties, ACSTAR is entitled to commutation proceeds of approximately \$2.9 million, which management expects to receive in the third-quarter. Completion of the commutation is expected to reduce ACSTAR's reinsurance recoverable asset by approximately \$1.8 million and result in an underwriting gain of approximately \$1.1 million.

(8) Subsequent Events

There were no subsequent events requiring adjustment to the consolidated financial statements (unaudited) or disclosure therein through August 2, 2018, the date the Company's consolidated financial statements (unaudited) were issued.