ACMAT CORP
Form 10-Q
November 14, 2001

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

[x] QUARTERLY REPORT PURSUANT TO SECTION 13 OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2001

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ______ to _______

Commission file number 0-6234

ACMAT CORPORATION

Connecticut	06-0682460
(State of Incorporation)	(I.R.S. Employer Identification No.)

233 Main Street, New Britain, Connecticut 06050-2350
(Address of principal executive offices)

Registrant's telephone number including area code: (860) 229-9000

NONE
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to filing requirements for the past 90 days.

Yes X No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Title of Class	Shares outstanding at October 31, 2001
Common Stock	557,589
Class A Stock	1,842,618

TABLE OF CONTENTS

Part I FINANCIAL INFORMATION	PAGE
Item 1. Unaudited Financial Statements	
Consolidated Balance Sheets	3
Consolidated Statements of Earnings	4
Consolidated Statements of Stockholders' Equity	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7
Item 2. Management's Discussion and Analysis of Financial Conditions and Results of Operations	11
Part II OTHER INFORMATION	
Item 6. Exhibits and Reports on Form 8-K	16
Signatures	17

Part I Financial Information
Item I Financial Statements

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets

Assets	September 30, 2001 (Unaudited)
Investments:	
Fixed maturities-available for sale at fair value (Cost of $59,392,330 in 2001 and $70,487,764 in 2000)	60,461,404
Equity securities, at fair value (Cost of $6,047,262 in 2001 and $2,561,512 in 2000)	5,855,640
Mortgage loans	--
Short-term investments, at cost which approximates fair value	7,757,453
Total investments	74,074,497
Cash and cash equivalents	8,127,530

Accrued interest receivable	756,491
Reinsurance recoverable	2,185,116
Receivables, net	5,724,381
Prepaid expenses	269,348
Deferred income taxes	291,766
Property & equipment, net	12,252,329
Deferred policy acquisition costs	1,453,116
Other assets	3,422,984
Intangibles, net	1,997,079
	110,554,637
Liabilities & Stockholders' Equity	
Accounts payable	3,352,754
Reserves for losses and loss adjustment expenses	24,813,804
Unearned premiums	5,332,079
Collateral held	11,934,113
Income taxes	23,170
Accrued liabilities	350,837
Long-term debt	26,469,007
Total liabilities	72,275,764
Commitments and contingencies	
Stockholders' Equity:	
Common Stock (No par value; 3,500,000 shares authorized; 557,589 and 557,589 shares issued and outstanding)	557,589
Class A Stock (No par value; 10,000,000 shares authorized; 1,843,019 and 2,057,254 shares issued and outstanding)	1,843,019
Retained earnings	35,299,183
Accumulated other comprehensive income (loss)	579,082
Total stockholders' equity	38,278,873
	110,554,637

See Notes to Consolidated Financial Statements.

3

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Earnings (Unaudited)

	Three months ended, September 30,		Nine
	2001	2000	2001
Earned premiums	$ 1,802,479	2,310,467	5,743,46
Contract revenues	4,290,636	3,840,853	10,729,78
Investment income, net	958,074	1,147,016	3,113,19
Net realized capital gains (losses)	33,027	(6,325)	297,74
Other income	205,915	372,445	577,93

	7,290,131	7,664,456	20,462,12
Losses and loss adjustment expenses	404,576	394,324	1,175,61
Amortization of policy acquisition costs	482,678	698,137	1,458,67
Cost of contract revenues	4,022,606	3,592,296	9,694,22
General and administrative expenses	1,125,732	1,263,964	3,942,61
Interest expense	693,965	798,508	2,037,81
	6,729,557	6,747,229	18,308,93
Earnings before income taxes	560,574	917,227	2,153,19
Income taxes	141,944	369,868	712,69
Net earnings	$ 418,630	547,359	1,440,49
Basic earnings per share	$ .17	.20	.5
Diluted earnings per share	$ .17	.19	.5

See Notes to Consolidated Financial Statements.

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity (Unaudited)
September 30, 2000 and 2001

	Common stock par value	Class A stock par value	Additional paid-in capital	Retained earnings
Balance as of December 31, 1999	$ 584,828	$ 2,304,587	$ --	$ 35,151,966
Comprehensive income:				
Net unrealized gains on debt and equity securities, net of tax	--	--	--	--
Net earnings	--	--	--	1,720,275
Total comprehensive income				
Acquisition and retirement of 17,680 shares of Common Stock	(17,680)	--	--	(318,240
Acquisition and retirement of 72,333 shares of Class A Stock	--	(72,333)	--	(518,537
Balance as of September 30, 2000	$ 567,148	$ 2,232,254	$ --	$ 36,035,464

Balance as of December 31, 2000	$ 557,589	$ 2,057,254	$ --	$ 35,326,305
Comprehensive income:				
Net unrealized losses on debt and equity securities	--	--	--	--
Net earnings	--	--	--	1,440,493
Total comprehensive income				
Acquisition and retirement of 214,235 shares of Class A Stock	--	(214,235)	--	(1,467,615
Balance as of September 30, 2001	$ 557,589	$ 1,843,019	$ --	$ 35,299,183

See Notes to Consolidated Financial Statements.

5

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Unaudited)
Nine Months Ended September 30, 2001 and 2000

	2001
Cash flows from operating activities:	
Net earnings	$ 1,440,
Adjustments to reconcile net earnings to net cash (used for) provided by operating activities:	
Depreciation and amortization	1,246,
Net realized capital (gains) losses	(297,
Changes in:	
Accrued interest receivable	276,
Reinsurance recoverable	395,
Receivables, net	(1,584,
Deferred policy acquisition costs	(14,
Prepaid expenses and other assets	52,
Accounts payable and accrued liabilities	116,
Reserves for losses and loss adjustment expenses	(4,496,
Collateral held	3,260,
Income taxes, net	244,
Unearned premiums	(110,
Net cash provided by (used for) operating activities	530,
Cash flows from investing activities:	
Proceeds from investments sold or matured:	
Fixed maturities-sold	23,622,
Fixed maturities-matured	17,920,
Equity securities	2,536,
Mortgages	289,
Short-term investments	13,855,
Purchases of:	

Fixed maturities	(30,545,
Equity securities	(6,000,
Mortgages	
Short-term investments	(18,364,
Capital expenditures	(255,
Net cash provided by investing activities	3,059,
Cash flows from financing activities:	
Payments on long-term debt	(1,227,
Payments for acquisition & retirement of stock	(1,681,
Net cash used for financing activities	(2,909,
Net change in cash	680,
Cash at beginning of period	7,446,
Cash at end of period	$ 8,127,

See Notes to Consolidated Financial Statements.

ACMAT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS:

(1) Financial Statements

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 generally accepted accounting principles and are unaudited.

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

These statements should be read in conjunction with the financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2000.

(2) Earnings Per Share

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share ("EPS") computations for the nine-month periods ended September 30, 2001 and 2000.

	Average Shares	Per-Share

	Earnings	Outstanding	Amount
2001:			
Basic EPS:			
Earnings available to stockholders	$1,440,493	2,453,592	$ .59
Effect of Dilutive Securities:			
Stock options	--	59,962	
Diluted EPS:			
Earnings available to stockholders	$1,440,493	2,513,554	$ .57
2000:			
Basic EPS:			
Earnings available to stockholders	$1,720,275	2,847,641	$ .60
Effect of Dilutive Securities:			
Stock options	$ --	38,405	
Diluted EPS:			
Earnings available to stockholders	$1,720,275	2,886,046	$ .60

(3) Supplemental Cash Flow Information

Income taxes paid during the nine months ended September 30, 2001 and 2000 was $468,382 and $315,224, respectively. Interest paid for the nine months ended September 30, 2001 and 2000 was $1,762,747 and $1,745,660, respectively.

7

(4) Comprehensive Income

The following table summarizes reclassification adjustments for other comprehensive income (loss) and the related tax affects for the nine months ended September 30, 2001 and 2000:

Unrealized gains (losses) on investments:	
Unrealized holding gain (loss) arising during period	$1,
Less reclassification adjustment for gains (losses) included in net income, net of income tax expense (benefit) of ($101,232) and ($39,059) and for 2001 and 2000, respectively	
Other comprehensive income (loss)	$1,

(5) Future Accounting Standards

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", was issued in June 1998 and establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, (collectively referred to as derivatives) and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The cumulative effect of adopting FAS 133, as amended, on January 1, 2001 had no effect. There were no derivative transactions during the first nine months of 2001.

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (FAS 142). FAS 142 addresses the initial recognition and measurement of intangible assets acquired either singly or with a group of other assets, as well as the measurement of goodwill and other intangible assets subsequent to their initial acquisition. FAS 142 changes the accounting for goodwill and intangible assets that have indefinite useful lives from an amortization approach to an impairment-only approach that requires that those assets be tested at least annually for impairment. Intangible assets that have finite useful lives will continue to be amortized over their useful lives, but without an arbitrary ceiling on their useful lives. FAS 142 is required to be applied starting with fiscal years beginning after December 15, 2001 and is required to be applied at the beginning of an entity's fiscal year. The statement is to be applied to all goodwill and other intangible assets recognized in an entity's financial statements at that date. Impairment losses for goodwill and indefinite lived intangible assets that arise due to the initial application of FAS 142 (resulting from an impairment test) are to be reported as a change in accounting principle. Retroactive application is not permitted. The Company has not yet determined the impact that FAS 142 will have on its consolidated financial statements.

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" (FAS 143). FAS 143 changes the measurement of an asset retirement obligation from a cost-accumulation approach to a fair value approach, where the fair value (discounted value) of an asset retirement obligation is recognized as a liability in the period in which it is incurred and accretion expense is recognized using the credit-adjusted risk-free interest rate in effect when the liability was initially recognized. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and subsequently amortized into expense. The pre-FAS 143 prescribed practice of reporting a retirement obligation as a contra-asset will no longer be allowed. The Company is in the process of assessing the impact of this new standard that will take effect on January 1, 2003.

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (FAS 144). FAS 144 establishes a single accounting model for long-lived assets to be disposed of by sale. A long lived asset classified as held for sale is to be measured at the lower of its carrying amount or fair value less cost to sell and depreciation (amortization) is to cease. Impairment is recognized only if the carrying amount of a long-lived asset is not recoverable from its undiscounted cash flows and is measured as the difference between the carrying amount and fair value of the asset. Long-lived assets to be abandoned, exchanged for a similar productive asset, or distributed to owners in a spin-off are considered held and used until disposed of. Accordingly, discontinued operations are no longer to be measured on a net realizable value basis, and future operating losses are no longer recognized before they occur.

The Company will adopt FAS 144 effective January 1, 2002. The provisions of the new standard are generally to be applied prospectively and are not expected to significantly affect the Company's results of operations, financial condition or liquidity.

(6) Segment Reporting

The Company has three reportable operating segments: ACSTAR Bonding, United Coastal Liability Insurance and ACMAT Contracting. The Company's reportable segments are primarily the three main legal entities of the Company which offer different products and services. The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

The United Coastal Liability Insurance operating segment offers specific lines of liability insurance as an approved non-admitted excess and surplus lines insurer in forty-six states, Puerto Rico, the Virgin Islands and the District of Columbia. United Coastal offers claims made and occurrence policies for specific specialty lines of liability insurance through certain excess and surplus lines brokers who are licensed and regulated by the state insurance department(s) in the state(s) in which they operate. United Coastal offers general, asbestos, lead, pollution and professional liability insurance nationwide to specialty trade contractors, environmental contractors, property owner, storage and treatment facilities and professionals. United Coastal also offers products liability insurance to manufacturers and distributors.

The Bonding operating segment provides, primarily through ACSTAR, surety bonds written for prime, specialty trade, environmental, asbestos and lead abatement contractors and miscellaneous obligations. ACSTAR also offers other miscellaneous surety such as workers' compensation bonds, supply bonds, subdivision bonds and license and permit bonds.

ACMAT Contracting provides construction contracting services to commercial and governmental customers. ACMAT Contracting also provides underwriting services to its insurance subsidiaries. In addition, ACMAT Contracting owns a commercial office building in New Britain Connecticut and leases office space to its insurance subsidiaries as to well as third parties.

The Company evaluates performance based on earnings before income taxes and excluding interest expense. The Company accounts for intersegment revenue and expenses as if the products/services were to third parties. Information relating to the three segments for the three and nine-month periods ended September 30, 2001 and 2000 is summarized as follows:

	Three Months ended		Nine Month
	2001	2000	2001
Revenues:			
ACSTAR Bonding	$ 1,244,332	1,579,633	$ 4,219,383
United Coastal Liability Insurance	1,421,332	1,769,338	4,703,309
ACMAT Contracting	5,160,712	4,846,905	13,400,210
	$ 7,826,376	8,195,876	$22,322,902
Operating Earnings:			
ACSTAR Bonding	$ 408,653	587,495	$ 1,558,298
United Coastal Liability Insurance	624,304	892,461	2,100,693
ACMAT Contracting	263,457	344,742	816,023
	$ 1,296,414	1,824,698	$ 4,475,014
Depreciation and Amortization:			
ACSTAR Bonding	$ 155,749	131,065	$ 461,826

United Coastal Liability Insurance	73,165	90,795	235,588
ACMAT Contracting	193,651	166,059	549,258
	$ 422,565	387,919	$ 1,246,672

Identifiable Assets:	September 30, 2001	December 31, 2000
ACSTAR Bonding	$ 42,884,935	41,801,164
United Coastal Liability Insurance	49,676,780	52,781,561
ACMAT Contracting	17,992,922	17,633,644
	$110,554,637	112,216,369

The components of revenue for each segment for the three and nine-month periods ended September 30, 2001 and 2000 are as follows:

	Three Months Ended		Nin
	2001	2000	2001
ACSTAR Bonding:			
Premiums	$ 918,374	1,272,951	$ 2,978,7
Investment income, net	397,567	305,942	1,176,8
Capital gains/(losses)	16,239	(5,622)	146,0
Other income (expense)	(87,848)	6,362	(82,2
	$ 1,244,332	1,579,633	$ 4,219,3
United Coastal Liability Insurance:			
Premiums	$ 884,105	1,037,516	$ 2,764,7
Investment income, net	510,546	728,235	1,772,5
Equity income (loss) from limited partnership investment			
Capital gains/(losses)	16,788	(703)	151,6
Other income	9,893	4,290	14,3
	$ 1,421,332	1,769,338	$ 4,703,3
ACMAT Contracting:			
Contract revenues	$ 4,290,636	3,840,853	$ 10,729,7
Investment income, net	7,081	5,812	33,6
Intersegment revenue:			
Rental income	305,340	305,341	972,4
Underwriting services and agency commissions	273,785	333,106	1,018,4
Other income	283,870	361,793	645,8

	$ 5,160,712	4,846,905	$ 13,400,2

The following is a reconciliation of segment totals for revenue and operating income to corresponding amounts in the Company's statement of earnings:

	Three Months Ended		
	2001	2000	2
Revenue:			
Total revenue for reportable segments	$ 7,826,376	8,195,876	$ 22,
Intersegment eliminations	(536,245)	(531,420)	(1,
	$ 7,290,131	7,664,456	$ 20,
Operating Earnings:			
Total operating earnings for reportable segments	$ 1,296,414	1,824,698	$ 4,
Interest expense	(693,965)	(798,508)	(2,
Other operating expenses	(41,875)	(108,963)	(
	$ 560,574	917,227	$ 2,

Operating earnings for ACMAT contracting are operating revenues less cost of contract revenues and identifiable selling, general and administrative expenses. Operating earnings for the bonding and liability insurance segments are revenues less losses and loss adjustment expenses, amortization of policy acquisition costs and identifiable selling, general and administrative expenses. The adjustments and eliminations required to arrive at consolidated amounts shown above consist principally of the elimination of the intersegment revenues related to the performance of certain services and rental charges. Identifiable assets are those assets that are used by each segment's operations. Foreign revenues are not significant.

10

ACMAT CORPORATION

Item 2: Management's Discussion and Analysis of Financial Conditions and Results of Operations

CONSOLIDATED RESULTS OF OPERATIONS:

Net earnings were $418,630 for the three months ended September 30, 2001 compared to $547,359 for the same period a year ago. Net earnings for the nine months ended September 30, 2001 were $1,440,493 compared to $1,720,275 for the nine months ended September 30, 2000. The decrease in 2001 net earnings compared to the 2000 net earnings was due primarily to a reduction in earned premiums resulting from a new reinsurance treaty effective May 1, 2000.

Revenues were $7,290,131 for the three months ended September 30, 2001 compared to $7,664,456 for the same period in 2000. Revenues were $20,462,126 for the nine months ended September 30, 2001 compared to $20,521,476 for the same period in 2000. Earned premiums were $1,802,479 for the three months ended September 30, 2001 compared to $2,310,467 for the same period a year ago. Earned premiums were $5,743,466 for the nine months ended September 30, 2001 compared to $6,778,573 for the same period in 2000. Contract revenues were $4,290,636 for the three months ended September 30, 2001 compared to $3,840,853 for the same period a year ago. Contract revenues were $10,729,787 for the nine months ended September 30, 2001 compared to $9,551,338 for the nine months ended September 30, 2000. Contract revenue is difficult to predict and depends greatly on the successful securement of contracts bid.

Investment income was $958,074 for the three months ended September 30, 2001 compared to $1,147,016 for the same period in 2000. Investment income was $3,113,192 for the nine months ended September 30, 2001 compared to $3,506,164 for the same period in 2000. The decrease in investment income was primarily related to a decrease in invested assets which were used to reduce long-term debt. Net realized capital gains for the three months ended September 30, 2001 were $33,027 compared to realized capital losses of $6,325 for the same period a year ago. Net realized capital gains were $297,742 for the nine months ended September 30, 2001 compared to net realized capital losses of $114,879 for the same period a year ago.

Other income was $205,915 for the three months ended September 30, 2001 compared to $372,445 for the same period in 2000. Other income was $577,939 for the nine months ended September 30, 2001 compared to $800,280 for the nine months ended September 30, 2000. Other income consists primarily of rental income.

Losses and loss adjustment expenses were $404,576 for the three months ended September 30, 2001 compared to $394,324 for the same period a year ago. Losses and loss adjustment expenses were $1,175,612 for the nine months ended September 30, 2001 compared to $1,228,109 for the same period a year ago. Amortization of policy acquisition costs were $482,678 for the three months ended September 30, 2001 compared to $698,137 for the same period in 2000. Amortization of policy acquisition costs were $1,458,679 for the nine months ended September 30, 2001 compared to $1,683,497 for the nine months ended September 30, 2000.

Costs of contract revenues were $4,022,606 for the three months ended September 30, 2001 compared to $3,592,296 for the same period a year ago, representing gross profit margin 6.2 % and 6.5%, respectively. Costs of contract revenues were $9,694,220 for the nine months ended September 30, 2001 compared to $8,942,869 for the same period a year ago, representing gross profit margins of 9.7% and 6.4%, respectively. Gross margin fluctuates each year based upon the profitability of specific projects.

General and administrative expenses were $1,125,732 for the three months ended September 30, 2001 compared to $1,263,964 for the same period a year ago. General and administrative expenses were $3,942,613 for the nine months ended September 30, 2001 compared to $3,811,856 for the nine months ended September 30, 2000. The decrease in quarterly general and administrative expenses in 2001 compared to 2000 is due primarily to a decrease in salary expense offset in part by an increase in depreciation expense.

Interest expense was $693,965 for the three months ended September 30, 2001 compared to $798,508 for the same period in 2000. Interest expense was $2,037,811 for the nine months ended September 30, 2001 compared to $2,276,365 for the same period a year ago. The decrease in interest expense is due to the decrease in long-term debt.

11

Income tax expense was $141,944 for the three months ended September 30, 2001 compared to $369,868 for the same period a year ago representing effective tax rates of 25.3% and 40.3%, respectively. Income tax expense was $712,698 for the nine months ended September 30, 2001 compared to $858,505 for the same period a year ago, representing effective tax rates of 33.1% and 33.3%, respectively. The fluctuation in the effective tax rate reflects a one-time charge related to an IRS examination completed in 2000.

Results of Operations by Segment:

ACSTAR BONDING:	Three Months ended September 30,		Nine Months ended September	
	2001	2000	2001	2000
Revenue	$1,244,332	1,579,633	4,219,383	4,602,5
Operating Earnings	$ 408,653	587,495	1,558,298	1,577,9

Revenues for the ACSTAR Bonding segment were $1,244,332 for the three months ended September 30, 2001 compared to $1,579,633 for the same period in 2000. Revenues for the ACSTAR Bonding segment were $4,219,383 for the nine months ended September 30, 2001 compared to $4,602,571 for the nine months ended September 30, 2000. Net written premiums were $855,858 for the three months ended September 30, 2001 compared to $1,229,862 for the three months ended September 30, 2000. Net written premiums were $2,682,809 for the nine months ended September 30, 2001 compared to $3,644,107 for the same period a year ago. Earned premiums were $918,374 for the three months ended September 30, 2001 compared to $1,272,951 for the three months ended September 30, 2000. Earned premiums were $2,978,740 for the nine months ended September 30, 2001 compared to $3,634,041 for the nine months ended September 30, 2000.

The net written premiums and earned premiums for the three and nine months ended September 30, 2001 as compared to the three and nine months ended September 30, 2000 reflect the Company's new reinsurance treaty. Effective May 1, 2000, the Company cedes significantly more of its bond exposure than under its previous reinsurance treaties. Such reinsurance is applicable on a per principal basis for losses in excess of $1,000,000 up to $13,000,000. Prior to May 1, 2000, reinsurance was applicable to losses in excess of $2,000,000 on a per bond basis with the Company retaining approximately $5,000,000 of losses up to $13,000,000.

Investment income was $397,567 for the three months ended September 30, 2001 compared to $305,942 for the same period a year ago. Investment income was $1,176,840 for the nine months ended September 30, 2001 compared to $949,489 for the nine months ended September 30, 2000. The investment income reflects a decrease in invested assets offset by an increase in the effective yield on those invested assets.

Operating earnings for the ACSTAR Bonding segment were $408,653 for the three months ended September 30, 2001 compared to $587,495 for the same period in 2000. Operating earnings for the nine months ended September 30, 2001 were $1,558,298 compared to $1,577,992 for the nine months ended September 30, 2000. The decrease in 2001 operating earnings compared to 2000 operating earnings reflects the Company's new reinsurance program and an increase in the amortization of policy acquisition costs.

Losses and loss adjustment expenses were $139,344 for the three months ended September 30, 2001 compared to $64,925 for the same period a year ago. Losses and loss adjustment expenses were $346,195 for the nine months ended September 30, 2001 compared to $196,413 for the same period a year ago. Amortization of policy acquisition costs were $371,666 for the three months ended September 30, 2001 compared to $551,030 for the same period in 2000. Amortization of policy acquisition were $1,248,325 for the nine months ended September 30, 2001 compared to $1,479,278 for the same period a year ago. The decrease in amortization of policy acquisition costs in 2001 compared to 2000 is primarily attributable to the reduction in average commission expense.

General and administrative expenses were $324,669 for the three months ended September 30, 2001 compared to $376,183 for the same period a year ago. General and administrative expenses were $1,066,565 for the nine months ended September 30, 2001 compared to $1,348,928 for the same period a year ago. The decrease in general and administrative expenses is due primarily to the implementation of a Funds Administration Agreement with ACMAT in 2000. ACMAT collects funds from certain obligees of ACSTAR and makes payments directly to the vendors and subcontractors of selected principals for certain bond obligations.

UNITED COASTAL LIABILITY INSURANCE:

	Three Months ended September 30,		Nine Months ended September 30,	
	2001	2000	2001	2000
Revenue	$1,421,332	1,769,338	$4,703,309	5,220,072
Operating Earnings	$ 624,304	892,461	$2,100,693	2,453,860

Revenues for the United Coastal Liability Insurance segment were $1,421,332 for the three months ended September 30, 2001 compared to $1,769,338 for the same period in 2000. Revenues for the United Coastal Liability Insurance segment were $4,703,309 for the nine months ended September 30, 2001 compared to $5,220,072 for the nine months ended September 30, 2000. The 2001 decrease in revenue reflects a decrease in earned premiums and investment income compared to 2000. Net written premiums were $1,175,258 for the three months ended September 30, 2001 compared to $502,866 for the three months ended September 30, 2000. Net written premiums were $3,122,490 for the nine months ended September 30, 2001 compared to $3,170,425 for the same period a year ago. Earned premiums were $884,105 for the three months ended September 30, 2001 compared to $1,037,516 for the three months ended September 30, 2000. Earned premiums were $2,764,726 for the nine months ended September 30, 2001 compared to $3,144,532 for the nine months ended September 30, 2000.

Investment income was $510,546 for the three months ended September 30, 2001 compared to $728,235 for the same period a year ago. Investment income was $1,772,555 for the nine months ended September 30, 2001 compared to $2,174,141 for the nine months ended September 30, 2000. The decrease in investment income was primarily related to a decrease in invested assets as a result of dividends distributed to the parent company to reduce corporate debt. Net realized capital gains were $16,788 for the three months ended September 30, 2001, as compared to realized capital losses of $703 for the same period a year ago. Net realized capital gains were $151,657 for the nine months ended September 30, 2001 as compared to realized capital losses of $109,257.

Operating earnings for the United Coastal Liability Insurance segment were $624,304 for the three months ended September 30, 2001 as compared to $892,461 for the same period in 2000. Operating earnings for the nine months ended September 30, 2001 were $2,100,693 compared to $2,453,860 for the nine months ended September 30, 2000. The decrease in 2001 operating earnings compared to 2000 operating earnings is due primarily to a decrease in earned premiums and investment income offset in part by a reduction in amortization of policy acquisition costs and losses and loss adjustment expenses.

Losses and loss adjustment expenses were $265,232 for the three months ended September 30, 2001 compared to $329,399 for the same period a year ago. Losses and loss adjustment expenses were $829,417 for the nine months ended September 30, 2001 compared to $1,031,696 for the same period a year ago. The decrease in losses and loss adjustment expenses are attributable to the decrease in earned premiums. Amortization of policy acquisition costs were $293,905 for the three months ended September 30, 2001 as compared to $321,980 for the same period in 2000. Amortization of policy acquisition were $936,575 for the nine months ended September 30, 2001 compared to $981,776 for the same period a year ago. The decrease in amortization of policy acquisition costs is primarily attributable to the decrease in earned premiums.

General and administrative expenses were $237,891 for the three months ended September 30, 2001 compared to $225,498 for the same period a year ago. General and administrative expenses were $836,624 for the nine months ended September 30, 2001 compared to $752,740 for the same period a year ago.

ACMAT CONTRACTING:	Three Months ended September 30		Nine Months ended September 30,	
	2001	2000	2001	2000
Revenue	$ 5,160,712	4,846,905	$13,400,210	12,910,111
Operating Earnings	$ 263,457	344,742	$ 816,023	1,151,107

Revenues for the ACMAT Contracting segment were $5,160,712 for the three months ended September 30, 2001 compared to $4,846,905 for the same period in 2000. Revenues were $13,400,210 for the nine months ended September 30, 2001 compared to $12,910,111 for the same period a year ago. The 2001 increase in revenue reflects an increase in contract revenues compared to 2000. Contract revenue is difficult to predict and depends greatly on the successful securement of contracts bid.

13

Operating earnings for the ACMAT Contracting segment were $263,457 for the three months ended September 30, 2001 compared to $344,742 for the same period a year ago. Operating earnings were $816,023 for the nine months ended September 30, 2001 compared to $1,151,107or the nine months ended September 30, 2000. The decrease in 2001 operating earnings compared to 2000 operating earnings is due primarily

Cost of contract revenues were $4,022,606 for the three months ended September 30, 2001 compared to $3,592,296 for the same period in 2000 representing gross profit margin of 6.2% and 6.5%, respectively. Cost of contract revenues were $9,694,220 for the nine months ended September 30, 2001 compared to $8,942,869 for the same period a year ago, representing gross profit margins of 9.7% and 6.4%, respectively. Gross margin fluctuates each year based upon the profitability of specific projects.

General and administrative expenses were $874,649 for the three months ended September 30, 2001 compared to $909,867 for the same period a year ago. General and administrative expenses were $2,889,967 for the nine months ended September 30, 2001 compared to $2,816,135 for the same period a year ago.

RESERVES FOR LOSSES AND LOSS ADJUSTMENT EXPENSES:

Reserves for losses and loss adjustment expenses are established with respect to both reported and incurred but not reported claims for insured risks. The amount of loss reserves for reported claims is primarily based upon a case-by-case evaluation of the type of risk involved, knowledge of the circumstances surrounding each claim and the policy provisions relating to the type of claim. As part of the reserving process, historical data is reviewed and consideration is given to the anticipated impact of various factors such as legal developments and economic conditions, including the effects of inflation. Reserves are monitored and evaluated periodically using current information on reported claims.

Management believes that the reserves for losses and loss adjustment expenses at September 30, 2001 are adequate to cover the unpaid portion of the ultimate net cost of losses and loss adjustment expenses, including losses incurred but not reported. Reserves for losses and loss adjustment expenses are estimates at any given point in time of what the Company may have to pay ultimately on incurred losses, including related settlement costs, based on facts and circumstances then known. The Company also reviews its claim reporting patterns, loss experience, risk factors and current trends and considers their effect in the determination of estimates of incurred but not reported reserves. Ultimate losses and loss adjustment expenses are affected by many factors which are difficult to predict, such as claim severity and frequency, inflation levels and unexpected and unfavorable judicial rulings. Reserves for surety claims also consider the amount of collateral held as well as the financial strength of the principal and its indemnitors.

The Company's insurance subsidiaries' loss ratios under generally accepted accounting principles ("GAAP") were 20.5% and 18.1% for the nine-month periods ended September 30, 2001 and 2000, respectively. These loss ratios are below industry averages and are believed to be the result of conservative underwriting. There can be no assurance that such loss ratios can continue. The Company's insurance subsidiaries' expense ratios under GAAP were 69.9% and 61.4% for the nine month period ended September 30, 2001 and 2000, respectively. The Company's insurance subsidiaries' combined ratios under GAAP were 90.4% and 79.5% for the nine-month period ended September 30, 2001 and 2000, respectively. The increase in the 2001 combined ratio results primarily from the decrease in earned premiums.

LIQUIDITY AND CAPITAL RESOURCES:

The Company internally generates sufficient funds for its operations and maintains a relatively high degree of liquidity in its investment portfolio. The primary sources of funds to meet the demands of claim settlements and operating expenses are premium collections, investment earnings and maturing investments. The Company has no material commitments for capital expenditures and, in the opinion of management, has adequate sources of liquidity to fund its operations over the next year.

ACMAT, exclusive of its subsidiaries, has incurred negative cash flows from operating activities primarily because of interest expense related to notes payable and long-term debt incurred by ACMAT to acquire and capitalize its insurance subsidiaries and to repurchase Company stock.

ACMAT's principal sources of funds are dividends from its wholly-owned subsidiaries, intercompany and short-term borrowings, insurance underwriting fees from its subsidiaries, construction contracting operations and rental income. Management believes that these sources of funds are adequate to service its indebtedness.

The Company provided cash flow from operations of $530,521 for the nine-month period ended September 30, 2001 compared to cash flow used of $8,710,662 for the same period in 2000. Net cash flows provided by operations in 2001 were from cash collateral. Substantially all of the Company's cash flow was used to repay long-term debt and repurchase stock. The Company's short term investment strategy coincides with the relatively short maturity of its liabilities which are comprised primarily of reserves for losses covered by claims-made insurance policies, reserves related to surety bonds and collateral held for surety obligations.

Net cash provided by investing activities in the first nine-months of 2001 amounted to $3,059,498 compared to $7,056,392 for the same period in 2000. Purchases of investments are made based upon excess cash available after the payment of losses and loss adjustment expenses and other operating and non-operating expenses.

The terms of the Company's note agreements contain limitations on payment of cash dividends, re-acquisition of shares, borrowings and investments and require maintenance of specified ratios and minimum net worth levels, including cross default provisions. The payment of future cash dividends and the re-acquisition of shares are restricted each to amounts of an Available Fund. The Available Fund is a cumulative fund which is increased each year by 20% of the Consolidated Net Earnings (as defined). The Company is in compliance with all covenants at September 30, 2001.

The Company maintains a short-term unsecured bank credit line totaling $10 million to fund interim cash requirements. There were no borrowings under this line of credit as of September 30, 2001.

During the nine-month period ended September 30, 2001, the Company also purchased, in the open market and privately negotiated transactions, 214,235 shares of its Class A Stock at an average price of $7.85 per share.

The Company's principal source of cash for repayment of long-term debt is from dividends from its two insurance companies. Under applicable insurance regulations, ACMAT's insurance subsidiaries are restricted as to the amount of dividends they may pay to their respective holding companies, without the prior approval of their domestic State insurance department. The amount of dividends ACMAT's insurance subsidiaries may pay, without prior approval of domestic State insurance departments, are limited to approximately $6,900,000 in 2001. The dividend limitation has increased from previous disclosures because of an adjustment to reduce excess of statutory reserves over statement reserves and similar increase to unassigned surplus.

REGULATORY ENVIRONMENT

Risk-based capital requirements are used as early warning tools by the National Association of Insurance Commissioners and the states to identify companies that require further regulatory action. The ratio for each of the Company's insurance subsidiaries as of September 30, 2001 was above the level which might require regulatory action.

Part II - Other Information

Item - Exhibits and Reports on Form 8-K

a. Exhibits - None

b. Report on Form 8-K - None

SIGNATURES

Pursuant to the requirements of Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ACMAT CORPORATION

Date: November 14, 2001 /s/ Henry W. Nozko, Sr.

Henry W. Nozko, Sr., President and Chairman

Date: November 14, 2001 /s/ Henry W. Nozko, Jr.

Henry W. Nozko, Jr., Executive Vice President
Chief Operating Officer, and Treasurer

Date: November 14, 2001 /s/ Michael P. Cifone

Michael P. Cifone, Vice President - Finance
(Principal Financial and Accounting Officer)