ACMAT CORP
Form 10-Q
November 14, 2003

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, 2003

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 by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

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, 2003
Common Stock	551,355
Class A Stock	1,742,705

TABLE OF CONTENTS

2

Part I Financial Information
Item I Financial Statements

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets

	September 2003 (Unaudit
Assets	
Investments:	
Fixed maturities-available for sale at fair value (Amortized Cost of $57,894,852 in 2003 and $59,872,707 in 2002)	$ 58,434
Equity securities, at fair value (Cost of $8,165,262 in 2003 and $6,700,559 in 2002	8,400
Short-term investments, at cost which approximates fair value	22,896
Total investments	89,730
Cash and cash equivalents	10,611
Accrued interest receivable	407
Receivables, net	3,243
Reinsurance recoverable	8,699
Prepaid expenses	429
Income tax receivable	
Deferred income taxes	2,617
Property & equipment, net	11,300
Deferred policy acquisition costs	1,942
Other assets	3,790
Intangibles	1,920
	$ 134,693

Liabilities & Stockholders' Equity

Accounts payable	$ 1,358
Reserves for losses and loss adjustment expenses	24,488
Unearned premiums	7,863
Collateral held	37,847
Income taxes payable	62
Other accrued liabilities	1,358
Long-term debt	19,712
Total liabilities	92,692
Commitments and contingencies	
Stockholders' Equity:	
Common Stock (No par value; 3,500,000 shares authorized; 551,355 and 553,355 shares issued and outstanding)	551
Class A Stock (No par value; 10,000,000 shares authorized; 1,742,705 and 1,756,405 shares issued and outstanding)	1,742
Retained earnings	39,359
Accumulated other comprehensive income	347
Total Stockholders' Equity	42,001
	$ 134,693

See Notes to Unaudited Consolidated Financial Statements.

3

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Earnings (Unaudited)

	Three months ended September 30		Nine mont Septem
	2003	2002	2003
Contract revenues	$ 801,956	3,642,953	1,813,069
Earned premiums	3,289,443	2,120,792	8,667,439
Investment income, net	721,455	913,065	1,976,693
Net realized capital gains (losses)	76,000	13,572	324,771
Life insurance proceeds, net	-	-	-
Other income	215,104	170,761	679,357
	5,103,958	6,861,143	13,461,329
Cost of contract revenues	828,057	3,921,885	1,771,686
Losses and loss adjustment expenses	1,124,954	509,595	2,988,273
Amortization of policy acquisition costs	531,110	508,854	1,555,806
General and administrative expenses	1,352,740	1,187,575	3,970,030
Interest expense	256,901	474,411	811,330
	4,093,762	6,602,320	11,097,125

Earnings before income taxes (benefits)	1,010,196	258,823	2,364,204
Income taxes (benefits)	378,567	(609,773)	850,398
Net earnings	$ 631,629	868,596	1,513,806
Basic earnings per share	.28	.37	.66
Diluted earnings per share	.27	.36	.65

See Notes to Unaudited Consolidated Financial Statements.

ACMAT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Unaudited)
September 30, 2003 and 2002

	Common Stock Par Value	Class A Stock Par Value	Retained Earnings	C
Balance as of December 31, 2001	$ 557,589	1,827,019	35,460,226	
Comprehensive income:				
Net unrealized gains on debt and equity securities	-	-	-	
Net earnings	-	-	2,412,068	
Total comprehensive income				
Acquisition and retirement of 4,234 shares of Common Stock	(4,234)	-	(76,255)	
Acquisition and retirement of 9,500 shares of Class A Stock	-	(9,500)	(83,390)	
Exercise of 7,500 shares of Class A Stock pursuant to Stock options	-	7,500	46,875	
Balance as of September 30, 2002	$ 553,355	1,825,019	37,759,524	
Balance as of December 31, 2002	$ 553,355	1,756,405	37,972,590	
Comprehensive income:				
Net unrealized losses on debt and equity securities	-	-	-	

Net unrealized gains on derivatives qualifying as hedges	-	-	-
Net earnings	-	-	1,513,806
Total comprehensive income			
Acquisition and retirement of 2,000 shares of Common Stock	(2,000)	-	(18,650)
Acquisition and retirement of 13,700 shares of Class A Stock	-	(13,700)	(108,105)
Balance as of September 30, 2003	$ 551,355	1,742,705	39,359,641

See Notes to Unaudited Consolidated Financial Statements.

5

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Unaudited)
Nine Months Ended September 30, 2003 and 2002

	2003
Cash flows from operating activities:	
Net earnings	$ 1,513
Adjustments to reconcile net earnings to net cash used for operating activities:	
Depreciation and amortization	1,114
Net realized capital gains	(324
Changes in:	
Accrued interest receivable	44
Reinsurance recoverable	(315
Receivables, net	(663
Deferred policy acquisition costs	(672
Prepaid expenses and other assets	(7
Accounts payable and other accrued liabilities	(584
Reserves for losses and loss adjustment expenses	(1,154
Collateral held	11,856
Income taxes, net	510
Unearned premiums	3,203
Net cash provided by operating activities	14,521
Cash flows from investing activities:	
Proceeds from investments sold or matured:	
Fixed maturities-sold	6,652
Fixed maturities-matured	27,741
Equity securities	4,158
Short term investments	55,985
Purchases of:	
Fixed maturities	(32,753
Equity securities	(5,600

Short-term investments	(76,748
Capital expenditures	(128
Net cash used for investing activities	(20,692
Cash flows from financing activities:	
Repayments on long-term debt	(1,799
Issuance of Class A Stock	
Payments for acquisition & retirement of stock	(142
Net cash used for financing activities	(1,941
Net change in cash	(8,112
Cash at beginning of period	18,724
Cash at end of period	$ 10,611

See Notes to Unaudited Consolidated Financial Statements.

ACMAT CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED 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 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.

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, 2002.

(2) Earnings Per Share

The following is a reconciliation of the numerators and denominators of the basic and diluted EPS computations for the three-month periods ended September 30, 2003 and 2002:

	Earnings	Weighted Average Shares Outstanding	Per-Share Amount

2003:			
Basic EPS:			
Earnings available to stockholders	$ 631,629	2,294,868	$ .28
Effect of Dilutive Securities:			
Stock options	-	48,862	
Diluted EPS:			
Earnings available to stockholders	$ 631,629	2,343,730	$ .27
2002:			
Basic EPS:			
Earnings available to stockholders	$ 868,596	2,378,373	$ .37
Effect of Dilutive Securities:			
Stock options	-	35,878	
Diluted EPS:			
Earnings available to stockholders	$ 868,596	2,414,251	$ .36

7

The following is a reconciliation of the numerators and denominators of the basic and diluted EPS computations for the nine-month periods ended September 30, 2003 and 2002:

	Earnings	Weighted Average Shares Outstanding	Per-Share Amount
2003:			
Basic EPS:			
Earnings available to stockholders	$ 1,513,806	2,301,531	$ .66
Effect of Dilutive Securities:			
Stock options	-	28,883	
Diluted EPS:			
Earnings available to stockholders	$ 1,513,806	2,330,414	$ .65
2002:			
Basic EPS:			
Earnings available to stockholders	$ 2,412,068	2,379,803	$ 1.01
Effect of Dilutive Securities:			
Stock options	-	55,008	
Diluted EPS:			
Earnings available to stockholders	$ 2,412,068	2,434,811	$ .99

The Convertible Notes were anti-dilutive in 2003 and 2002.

(3) Supplemental Cash Flow Information

Income taxes paid during the nine months ended September 30, 2003 and 2002 was $339,998 and $576,331, respectively. Interest paid for the nine months ended September 30, 2003 and 2002 was $817,982 and $1,277,723, respectively.

(4) Other Comprehensive Income

The following table summarizes reclassification adjustments for other comprehensive income and the related tax effects for the nine months ended September 30, 2003 and 2002:

	2003
Unrealized gains on investments:	
Unrealized holding gain arising during period	$ (12
Less reclassification adjustment for gains included in net income, net of income tax expense of $110,422 and $10,382 for 2003 and 2002, respectively	214
Unrealized gain on derivatives qualifying as hedges	3
Other comprehensive income	$ (223

8

(5) Stock-Based Compensation

The Company accounts for stock options under the recognition and measurement principles of Accounting Principles Board Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees", and related interpretations.

The stock options were awarded at an exercise price equal to the market value of the underlying common stock on the date of the grant. Accordingly, there has been no employee compensation cost recognized in earnings for the stock options.

FAS 123 provides an alternative to APB 25 whereby fair values may be ascribed to options using a valuation model and amortized to compensation cost over the vesting period of the options. The following tables illustrate the pro forma effect on net income and earnings per share for each period indicated as if the Company applied the fair value recognition provisions of FAS 123 to its stock option program.

The pro forma fair value of stock-based compensation in the Company's Class A Shares for the three and nine months ended September 30, 2003 and 2002 is as follows:

	Three Months Ended	
	2003	2002
Net earnings as reported	$ 631,629	868,596
Add: Stock-based employee compensation reported in net earnings, net of related tax effects	---	---

Deduct: Stock-based compensation expense determined under fair value based method, net of related tax effects	(20,732)	(110,603)
Net earnings, pro forma	$ 610,897	757,993
Earnings per share		
Basic and diluted - as reported	$ .28/$.27	.37/.36
Basic and diluted - pro forma	$ .27/$.26	.32/.31

The significant assumptions used during the year in estimating the fair value on the date of the grant for original options and reload options granted in 2002 were as follows:

	2002
Expected life of stock options, in years	9
Expected volatility of ACMAT stock	44%
Risk-free interest rate	4.0
Expected annual dividend yield	---
Expected annual forfeiture rate	---

No options were granted in 2003.

(6) New Accounting Standards

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 not impacted by this new standard which took effect on January 1, 2003.

In June 2002, the FASB issued Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (FAS 146). FAS 146 requires that a liability for costs associated with exit or disposal activities be recognized when the liability is incurred. Existing generally accepted accounting principles provide for the recognition of such costs at the date of management's commitment to an exit plan. In addition, FAS 146 requires that the liability be measured at fair value and be adjusted for changes in estimated cash flows. The provisions of the new standard are effective for exit or disposal activities initiated after December 31, 2002. The Company is not impacted by this new standard.

9

(7) Accounting Standards Not Yet Adopted

Consolidation of Variable Interest Entities

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46). FIN 46 clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements", to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. It separates entities into two groups: (1) those for which voting interests are used to determine consolidation and (2) those for which variable interests are used to determine consolidation (the subject of FIN 46). FIN 46 clarifies how to identify a variable interest entity and how to determine when a business enterprise should include the assets, liabilities, non-controlling interests and results of activities of a variable interest entity in its consolidated financial statements. FIN 46 is effective immediately for variable interest entities created after January 31, 2003. As of October 9, 2003, the FASB deferred the effective date of FIN 46 to interim periods ending after December 15, 2003 for interests held in variable interest entities or potential variable interest entities created before February 1, 2003. If it is reasonably possible that an enterprise will consolidate or disclose information about a variable interest entity when FIN 46 becomes effective, the enterprise is required to disclose in all financial statements issued after January 31, 2003, the nature, purpose, size and activities of the variable interest entity and the enterprise's maximum exposure to loss as a result of its involvement with the variable interest entity.

The Company holds mortgage-backed and asset-backed securities which are considered variable interest entities. The Company has assessed the impact that the provisions of FIN 46 may have on the consolidated financial statements based on the guidance and interpretations issued to date. No consolidation of investments are expected at this time, subject to any new or additional guidance that may be issued by the FASB as it continues to make interpretative changes during the deferral period.

(8) Life Insurance Proceeds, net

On January 13, 2002, the Founder, Chairman, President and Chief Executive Officer of the Corporation died at the age of 82. The Company was the owner and beneficiary of several key-man life insurance policies totaling approximately $11.9 million. After consideration of the cash-surrender value of the policies, the Company reported a gross gain of approximately $8.8 million during the three-month period ended March 31, 2002. In connection with the passing of Henry W. Nozko, Sr., the Company incurred certain obligations, previously approved by the Board of Directors, totaling approximately $5.5 million. These obligations for consulting fees, widow's compensation and unused vacation pay were due only to the extent that sufficient proceeds existed from the life insurance policies at the time of Mr. Nozko's death.

(9) Segment Reporting

The Company has three reportable operating segments: ACMAT Contracting, ACSTAR Bonding and United Coastal Liability Insurance. 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.

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 well as third parties.

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, professional, products, pollution, asbestos and lead liability insurance to specialty trade contractors, environmental contractors, property owners, storage and treatment facilities and professionals. United Coastal also offers products liability insurance to manufacturers and distributors and general liability for habitational risks, restaurants and bars.

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.

10

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, 2003 and 2002 is summarized as follows:

	Three Months ended		Nine Mont
	2003	2002	2003
Revenues:			
ACSTAR Bonding	$ 2,251,555	1,474,778	5,800,232
United Coastal Liability Insurance	1,779,043	1,325,337	4,933,426
ACMAT Contracting	1,728,444	4,659,808	4,638,405
	$ 5,759,042	7,459,923	15,372,063
Operating Earnings (Loss):			
ACSTAR Bonding	$ 827,516	408,005	1,901,336
United Coastal Liability Insurance	577,303	517,111	1,469,604
ACMAT Contracting	(137,722)	(191,882)	(195,406)
	$ 1,267,097	733,234	3,175,534
Depreciation and Amortization:			
ACSTAR Bonding	$ 163,930	86,001	483,050
United Coastal Liability Insurance	62,328	48,897	265,632
ACMAT Contracting	121,998	142,079	365,800
	$ 348,256	276,977	1,114,482

	September 30, 2003	December 31, 2002

Identifiable Assets:		
ACSTAR Bonding	$ 70,887,680	56,407,938
United Coastal Liability Insurance	47,660,215	46,443,389
ACMAT Contracting	16,146,026	19,113,436
	$ 134,693,921	121,964,763

The components of revenue for each segment for the three and nine-month periods ended September 30, 2003 and 2002 are as follows:

	Three Months ended		Nine Mont
	2003	2002	2003
ACSTAR Bonding:			
Premiums	$ 1,908,238	1,266,436	4,787,034
Investment income, net	304,213	406,039	876,539
Capital gains	38,000	14,984	240,794
Other	1,104	(212,681)	(104,135)
	$ 2,251,555	1,474,778	5,800.232
United Coastal Liability Insurance:			
Premiums	$ 1,381,205	854,356	3,880,405
Investment income, net	351,533	460,747	943,456
Capital gains/(losses)	38,000	(1,412)	83,977
Other	8,305	11,646	25,588
	$ 1,779,043	1,325,337	4,933,426
ACMAT Contracting:			
Contract revenues	$ 801,956	3,642,953	1,813,069
Investment income, net	1,018	3,019	8,250
Intersegment revenue:			
Rental income	178,702	305,342	589,444
Underwriting services, agency commissions and funds administration services	541,073	336,698	1,469,738
Other	205,695	371,796	757,904
	$ 1,728,444	4,659,808	4,638,405

11

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	Nine Mont

	2003	2002	2003
Revenue:			
Total revenue for reportable segments	$ 5,759,042	7,459,923	15,372,063
Life insurance proceeds, net	-	-	-
Intersegment eliminations	(655,084)	(598,780)	(1,910,734)
	$ 5,103,958	6,861,143	13,461,329

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.

Operating Earnings:			
Total operating earnings for reportable segments	$ 1,267,097	733,234	3,175,534
Interest expense	(256,901)	(474,411)	(811,330)
Life insurance proceeds, net	-	-	-
Earnings before income taxes	$ 1,010,196	258,823	2,364,204

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, general and administrative expenses.

12

ACMAT CORPORATION

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

CONSOLIDATED RESULTS OF OPERATIONS:

Net earnings were $631,629 for the three months ended September 30, 2003 compared to $868,596 for the same period a year ago. The decrease in net earnings for the three months ended September 30, 2003 compared to the same period a year ago reflects the absence of a tax benefit in 2003 offset by an increase in earned premium in 2003. Net earnings for the nine months ended September 30, 2003 were $1,513,806 compared to $2,412,068 for the nine months ended September 30, 2002. The decrease in net earnings for the nine months ended September 30, 2003 compared to 2002 is largely due to the absence of a one-time benefit from life insurance proceeds and the related tax benefits received in 2002 offset in part by an increase in earned premium and a decrease in loss and loss adjustment expense. The net earnings for the nine months ended September 30, 2002 reflects the net effect of life insurance proceeds, net of the related obligations, due to the death of the Chairman and President of the Company and the related tax benefits offset by an increase to loss reserves due to adverse development in prior years and additional remediation expenses incurred on a construction project significantly exceeded the original estimate.

Revenues were $5,103,958 for the three months ended September 30, 2003 compared to $6,861,143 for the same period in 2002. Revenues were $13,461,329 for the nine months ended September 30, 2003 compared to $27,792,468 for the same period in 2002. Earned premiums were $3,289,443 for the three months ended September 30, 2003 compared to $2,120,792 for the same period a year ago. Earned premiums were $8,667,439 for the nine months ended September 30, 2003 compared to $5,718,669 for the same period in 2002. Contract revenues were $801,956 for the three months ended September 30, 2003 compared to $3,642,953 for the same period a year ago. Contract revenues were $1,813,069 for the nine months ended September 30, 2003 compared to $15,444,552 for the nine months ended September 30, 2002. Contract revenue is difficult to predict and depends greatly on the successful securement of contracts bid.

Investment income was $721,455 for the three months ended September 30, 2003 compared to $913,065 for the same period in 2002. Investment income was $1,976,693 for the nine months ended September 30, 2003 compared to $2,710,692 for the same period in 2002. The decrease in investment income was primarily related to a decrease in the yield on invested assets offset in part by an increase in invested assets. Net realized capital gains for the three months ended September 30, 2003 were $76,000 compared to $13,572 for the same period a year ago. Net realized capital gains were $324,771 for the nine months ended September 30, 2003 compared to $30,534 for the same period a year ago.

Life insurance proceeds received in 2002 reflect the net proceeds of several key-man life insurance policies totaling approximately $8,800,000. In addition, the Company incurred certain obligations, previously approved by the Board of Directors, totaling approximately $5,500,000. These obligations for consulting fees, widow's compensation and unused vacation pay were due only to the extent that sufficient proceeds existed from the life insurance policies at the time of Mr. Nozko's death.

Other income was $215,104 for the three months ended September 30, 2003 compared to $170,761 for the same period in 2002. Other income was $679,357 for the nine months ended September 30, 2003 compared to $539,118 for the nine months ended September 30, 2002. Other income consists primarily of rental income.

Losses and loss adjustment expenses were $1,124,954 for the three months ended September 30, 2003 compared to $509,595 for the same period a year ago. The increase in loss and loss adjustment expense for the three month period ended September 30, 2003 compared to the same period a year ago reflects an increase in the current year loss and loss adjustment expense ratio and an increase in earned premiums. Losses and loss adjustment expenses were $2,988,273 for the nine months ended September 30, 2003 compared to $3,587,818 for the same period a year ago. The losses and loss adjustment expenses for the nine month period ended September 30, 2002 is attributable to the strengthening of loss reserves due to adverse development in prior years. During the nine-month period ended September 30, 2002, the Company increased reserves by a net amount of $2,200,000. Amortization of policy acquisition costs were $531,110 for the three months ended September 30, 2003 compared to $508,854 for the same period in 2002. Amortization of policy acquisition costs were $1,555,806 for the nine months ended September 30, 2003 compared to $1,357,673 for the nine months ended September 30, 2002. The increase in amortization of policy acquisition costs reflects increase in earned premium offset in part by a decrease in commissions paid.

Costs of contract revenues were $828,057 for the three months ended September 30, 2003 compared to $3,921,885 for the same period a year ago, representing gross profit (loss) margin (3.2)% and (7.7)%, respectively. Costs of contract revenues were $1,771,686 for the nine months ended September 30, 2003 compared to $16,533,797 for the same period a year ago, representing gross profit (loss) margins of 2.3% and (7.1)%, respectively. The Company incurred additional remediation expenses on a construction project that significantly exceeded the original estimate. Gross margin fluctuates each year based upon the profitability of specific projects.

General and administrative expenses were $1,352,740 for the three months ended September 30, 2003 compared to $1,187,575 for the same period a year ago. The increase in general and administrative expense for the three month period ended September 30, 2003 compared to the same period a year ago reflects an increase in bad debt expense in 2003. General and administrative expenses were $3,970,030 for the nine months ended September 30, 2003 compared to $3,882,254 for the nine months ended September 30, 2002. The decrease in general and administrative expenses for the nine months ended September 30, 2003 compared to 2002 is due primarily to a one-time investment write-off in 2002.

Interest expense was $256,901 for the three months ended September 30, 2003 compared to $474,411 for the same period in 2002. Interest expense was $811,330 for the nine months ended September 30, 2003 compared to $1,517,493 for the same period a year ago. The decrease in interest expense is due to the decrease in long-term debt and replacement of high-interest bearing debt with lower interest-bearing debt during the fourth quarter of 2002.

Income tax expense was $378,567 for the three months ended September 30, 2003 compared to income tax benefit of $609,773 for the same period a year ago representing effective tax rates of 37.5% and (236)%, respectively. Income tax expense was $850,398 for the nine months ended September 30, 2003 compared to income tax benefit of $1,498,635 for the same period a year ago, representing effective tax rates of 36.0% and (164)%, respectively. The effective tax rate in 2003 reflects the Company's reduction in tax exempt interest. The effective rate in 2002 reflects the recognition of net life insurance proceeds which are exempt for income tax purposes.

Results of Operations by Segment:

	Three Months ended September 30,		Nine Months en
ACSTAR BONDING:	2003	2002	2003
Revenue	$ 2,251,555	1,474,778	5,800,232
Operating Earnings	$ 827,516	408,005	1,901,336

Revenues for the ACSTAR Bonding segment were $2,251,555 for the three months ended September 30, 2003 compared to $1,474,778 for the same period in 2002. Revenues for the ACSTAR Bonding segment were $5,800,232 for the nine months ended September 30, 2003 compared to $4,153,161 for the nine months ended September 30, 2002. Net written premiums were $2,235,297 for the three months ended September 30, 2003 compared to $1,320,086 for the three months ended September 30, 2002. Net written premiums were $5,540,077 for the nine months ended September 30, 2003 compared to $3,347,019 for the same period a year ago. Earned premiums were $1,908,238 for the three months ended September 30, 2003 compared to $1,266,436 for the three months ended September 30, 2002. Earned premiums were $4,787,034 for the nine months ended September 30, 2003 compared to $3,277,830 for the nine months ended September 30, 2002. The increase in net written premiums for the three and nine months ended September 30, 2003 as compared to the three and nine months ended September 30, 2002 reflect the impact of the favorable insurance rate market. ACSTAR has experienced a significant increase in business opportunities over the past twelve months that meet ACSTAR's underwriting standards.

Investment income was $304,213 for the three months ended September 30, 2003 compared to $406,039 for the same period a year ago. Investment income was $876,539 for the nine months ended September 30, 2003 compared to $1,074,423 for the nine months ended September 30, 2002. The 2003 investment income reflects a decrease in the effective yield on invested assets offset in part by an increase in invested assets.

Operating earnings for the ACSTAR Bonding segment were $827,516 for the three months ended September 30, 2003 compared to $408,005 for the same period in 2002. The increase in operating earnings for the three months ended September 30, 2003 compared to the same period a year ago reflects an increase in earned premiums offset by an increase in losses and loss adjustment expenses. Operating earnings for the nine months ended September 30, 2003 were $1,901,336 compared to $769,363 for the nine months ended September 30, 2002. The operating earnings for the nine months ended September 30, 2003 reflect the increase in earned premiums and realized capital gains. The operating earnings for the nine months ended September 30, 2002 reflect the addition of $500,000, net of recoveries, to loss reserves for adverse development in prior years and the emergence of adverse loss trends in 2002.

Losses and loss adjustment expenses were $572,471 for the three months ended September 30, 2003 compared to $253,287 for the same period a year ago. The increase in loss and loss adjustment expense for the three month period ended June 30, 2003 compared to the same period a year ago reflects an increase in the loss and loss adjustment expense ratio and an increase in earned premiums. Losses and loss adjustment expenses were $1,436,110 for the nine

months ended September 30, 2003 compared to $1,155,566 for the same period a year ago. The 2002 losses and loss adjustment expenses for the nine months ended September 30, 2002 reflects the strengthening of loss reserves by a net amount of $500,000. Amortization of policy acquisition costs were $585,404 for the three months ended September 30, 2003 compared to $471,992 for the same period in 2002. Amortization of policy acquisition costs were $1,582,309 for the nine months ended September 30, 2003 compared to $1,271,400 for the same period a year ago.

General and administrative expenses were $266,164 for the three months ended September 30, 2003 compared to $341,494 for the same period a year ago. The decrease in general and administrative expenses for the three months ended September 30, 2003 reflects a decrease in rental expense. General and administrative expenses were $880,477 for the nine months ended September 30, 2003 compared to $956,832 for the same period a year ago. The decrease in general and administrative expenses for the nine months ended September 30, 2003 is due primarily to a one-time rent recovery from an affiliate in 2002 and a decrease in rental expense and depreciation in 2003.

UNITED COASTAL LIABILITY INSURANCE:	Three Months ended September 30,		Nine Mont
	2003	2002	2003
Revenue	$1,779,043	1,325,337	$4,933,42
Operating Earnings (Loss)	$ 577,303	517,111	$1,469,60

Revenues for the United Coastal Liability Insurance segment were $1,779,043 for the three months ended September 30, 2003 compared to $1,325,337 for the same period in 2002. Revenues were $4,993,426 for the nine months ended September 30, 2003 compared to $3,902,317 for the nine months ended September 30, 2002. Net written premiums were $2,335,043 for the three months ended September 30, 2003 compared to $1,009,869 for the three months ended September 30, 2002. Net written premiums were $6,401,028 for the nine months ended September 30, 2003 compared to $2,980,704 for the same period a year ago. Earned premiums were $1,381,205 for the three months ended September 30, 2003 compared to $854,356 for the three months ended September 30, 2002. Earned premiums were $3,880,405 for the nine months ended September 30, 2003 compared to $2,440,839 for the nine months ended September 30, 2002. The increase in net written premiums reflects the impact of the favorable insurance market and an increase in new business.

Investment income was $351,533 for the three months ended September 30, 2003 compared to $460,747 for the same period a year ago. Investment income was $943,456 for the nine months ended September 30, 2003 compared to $1,426,811 for the nine months ended September 30, 2002. The decrease in investment income was primarily related to a decrease in the effective yield on invested assets and a slight decrease in the amount of invested assets. Net realized capital gains for the three months ended September 30, 2003, were $38,000 compared to net realized capital losses of $1,412 for the same period a year ago. Net realized capital gains for the nine month period ended September 30, 2003 were $83,977 as compared to $15,787 the same period a year ago.

Operating earnings for the United Coastal Liability Insurance segment were $577,303 for the three months ended September 30, 2003 as compared to $517,111 for the same period in 2002. Operating earnings for the nine months ended September 30, 2003 were $1,469,604 compared to $13,308 for the nine months ended September 30, 2002. The decrease in operating earnings for the nine months ended September 30, 2002 is due primarily to the addition of $1,700,000 to loss reserves for adverse development in prior years.

Losses and loss adjustment expenses were $552,483 for the three months ended September 30, 2003 compared to $256,308 for the same period a year ago. The increase in loss and loss adjustment expense for the three month period ended September 30, 2003 compared to the same period a year ago reflects an increase in the loss and loss adjustment expense ratio and an increase in earned premiums. Losses and loss adjustment expenses were $1,552,163 for the nine months ended September 30, 2003 compared to $2,432,252 for the same period a year ago. The 2002 losses and loss adjustment expenses is attributable to the strengthening of loss reserves due to adverse development in prior years. During the three-month period ended March 31, 2002, the Company increased United Coastal reserves by a net amount of $1,700,000. Amortization of policy acquisition costs were $389,644 for the three months ended September 30, 2003 as compared to $268,012 for the same period in 2002. Amortization of policy acquisition costs were $1,083,377 for the nine months ended September 30, 2003 compared to $694,985 for the same period a year ago. The increase amortization of policy acquisition costs is primarily attributable to the increase in earned premiums.

General and administrative expenses were $259,613 for the three months ended September 30, 2003 compared to $283,096 for the same period a year ago. The decrease in general and administrative expenses for the three months ended September 30, 2003 reflects a decrease in rental expense offset in part by an increase in bad debt expense. General and administrative expenses were $828,282 for the nine months ended September 30, 2003 compared to $761,772 for the same period a year ago. The increase in general and administrative expenses for the nine months ended September 30, 2003 reflects an increase in bad debt expense offset in part by a decrease in rent expense.

	Three Months ended September 30		Nine Mont
	2003	2002	2003
ACMAT CONTRACTING:			
Revenue	$ 1,728,444	4,659,808	4,638,405
Operating Earnings (Loss)	$ (137,722)	(191,882)	(195,406

Revenues for the ACMAT Contracting segment were $1,728,444 for the three months ended September 30, 2003 compared to $4,659,808 for the same period in 2002. Revenues were $4,638,405 for the nine months ended September 30, 2003 compared to $18,146,756 for the same period a year ago. The 2003 decrease in revenue reflects a decrease in contract revenues compared to 2002 due to the completion of most backlog during 2002.

Operating losses for the ACMAT Contracting segment were $137,722 for the three months ended September 30, 2003 compared to operating losses of $191,882 for the same period a year ago. Operating losses were $195,406 for the nine months ended September 30, 2003 compared to operating losses of $1,700,648 for the nine months ended September 30, 2002. The operations in 2003 reflect a significant decrease in contract revenue and the decrease in rental income charged to ACSTAR and United Coastal effective January 1, 2003. The operating loss in 2002 is due primarily to additional remediation expenses incurred on a construction project that significantly exceeded the original estimate.

The 2003 decrease in revenue reflects the completion of most of the backlog in 2002. Contract revenue depends greatly on the successful securement of contracts bid and execution. The Company has been awarded several projects substantially increasing the current backlog. The backlog at September 30, 2003 was approximately $10,800,000 compared to $1,200,000 at September 30, 2002.

Cost of contract revenues were $828,057 for the three months ended September 30, 2003 compared to $3,921,885 for the same period in 2002 representing gross profit (loss) margin of (3.2)% and (7.7)%, respectively. Cost of contract revenues were $1,771,686 for the nine months ended September 30, 2003 compared to $16,533,797 for the same period a year ago, representing gross profit (loss) margins of 2.3% and (7.1)%, respectively. Gross margin fluctuates each year based upon the profitability of specific projects.

General and administrative expenses were $1,038,109 for the three months ended September 30, 2003 compared to $929,805 for the same period a year ago. The increase in general and administrative expenses for the three months ended September 30, 2003 reflects an increase in salary expenses in 2003. General and administrative expenses were $3,062,125 for the nine months ended September 30, 2003 compared to $3,313,607 for the same period a year ago. The decrease in general and administrative expenses for the nine months ended September 30, 2003 reflects an increase in salary expense in 2003 offset by the absence of a one-time investment write-off and a one-time return of rental income to affiliates collected on their behalf in 2002.

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, 2003 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 34.2% and 24.0% for the three-month period ended September 30, 2003 and 2002, respectively. The increase in losses and loss adjustment expenses is attributable to the emergence of loss trends in the current year. The Company's insurance subsidiaries' expense ratios under GAAP were 45.6% and 64.4% for the three-month period ended September 30, 2003 and 2002, respectively. The decrease in the 2003 expense ratio results primarily from the increase in earned premiums. The Company's insurance subsidiaries' combined ratios under GAAP were 79.8% and 88.4% for the three-month period ended September 30, 2003 and 2002, respectively.

The Company's insurance subsidiaries' loss ratios under generally accepted accounting principles ("GAAP") were 34.5% and 62.7% for the nine-month periods ended September 30, 2003 and 2002, respectively. The 2002 losses and loss adjustment expenses reflect the strengthening of loss reserves due to adverse development in prior years and emergence of loss trends in the current year. During the three-month period ended March 31, 2002, the Company increased reserves by a net amount of $2,200,000. The Company's insurance subsidiaries' expense ratios under GAAP were 50.5% and 64.4% for the nine-month period ended September 30, 2003 and 2002, respectively. The decrease in the 2003 expense ratio results primarily from the decrease in commission percentage paid and an increase in earned premiums. The Company's insurance subsidiaries' combined ratios under GAAP were 84.9% and 127.1% for the nine-month period ended September 30, 2003 and 2002, respectively.

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 generated cash flow from operations of $14,521,713 and $8,673,243 for the nine-month period ended September 30, 2003 and 2002, respectively. The cash flow from operations is due primarily to the increase in cash collateral. Net cash flows from operations in 2002 resulted primarily from life insurance proceeds and cash collateral. 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 used for investing activities in the first nine-months of 2003 amounted to $20,692,921 compared to $4,026,036 for the same period in 2002. 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 Company was in compliance with the covenants at September 30, 2003, except for the ratio of Funded Debt to Statutory Earnings. The Company expects to be in compliance by the end of the year or to receive a waiver.

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, 2003.

During the nine-month period ended September 30, 2003, the Company purchased, in the open market and privately negotiated transactions, 2,000 shares of its Common Stock at an average price of $10.33 per share. During the nine-month period ended September 30, 2003, the Company also purchased, in the open market and privately negotiated transactions, 13,700 shares of its Class A Stock at an average price of $8.89 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 their domestic State insurance departments, are limited to approximately $4,491,000 in 2003.

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, 2003 was above the level which might require regulatory action.

CRITICAL ACCOUNTING POLICIES:

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. This is a critical accounting policy for the insurance operations.

Revenue on construction contracts is recorded using the percentage of completion method. Under this method revenues with respect to individual contracts are recognized in the proportion that costs incurred to date relate to total estimated costs. Revenues and cost estimates are subject to revision during the terms of the contracts, and any required adjustments are made in the periods in which the revisions become known. Provisions are made, where applicable, for the entire amount of anticipated future losses on contracts in progress. Construction claims are recorded as revenue at the time of settlement and profit incentives and change orders are included in revenues when their realization is reasonably assured. Selling, general and administrative expenses are not allocated to contracts. This is a critical accounting policy for the ACMAT construction segment.

CONTRACTUAL CASH OBLIGATIONS AND COMMITMENTS:

Contractual obligations at September 30, 2003 include the following:

	Total	2003	2004/2005	
Payment due by Period				
Long-Term Debt (principal)	$ 19,712,633	$ 606,100	$ 5,223,604	$

The Company also has cash collateral of $37,847,397 at September 30, 2003, which it would be required to return at the end of expiration of applicable bond period subject to any claims.

CONTROLS AND PROCEDURES:

The Company maintains disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act") that are designed to ensure that information required to be disclosed in the Company's reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer has evaluated the effectiveness of the design and operation of the

Company's disclosure controls and procedures as of September 30, 2003. Based upon that evaluation and subject to the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that the design and operation of the Company's disclosure controls and procedures provided reasonable assurance that the disclosure controls and procedures are effective to accomplish their objectives.

In addition, there was no change in the Company's "internal control over financial reporting" (as that term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended September 30, 2003 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

18

Part II - Other Information

Item 5 - Other Information

Item 6 - Exhibits and Reports on Form 8-K

a. Exhibits:

31.1 Certification of Henry W. Nozko, Jr., Chief Executive Officer of the Company, as required by Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Michael P. Cifone, Chief Financial Officer of the Company, as required by Section 302 of the Sarbanes-Oxley Act of 2002

99.1 Certification of Henry W. Nozko, Jr., Chief Executive Officer, as required by Section 906 of the Sarbanes-Oxley Act of 2002

99.2 Certification of Michael P. Cifone, Chief Financial Officer, as required by Section 906 of the Sarbanes-Oxley Act of 2002

b. Report on Form 8-K - None

19

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, 2003

/S/ Henry W. Nozko, Jr.

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

Date: November 14, 2003

/S/ Michael P. Cifone

Michael P. Cifone, Senior Vice President, Chief Financial Officer

(Principal Financial & Accounting Officer)