ACMAT CORP
Form 10-Q
August 13, 2001

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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 June 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.

Shares outstanding

Title of Class	at July 31, 2001
Common Stock	557,589
Class A Stock	1,843,019

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Part I Financial Information

Item I Financial Statements

ACMAT CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

Assets	June 30, 2001 (Unaudited)
Investments:	
Fixed maturities-available for sale at fair value (Cost of $60,305,308 in 2001 and $70,487,764 in 2000)	$ 60,452,820
Equity securities, at fair value (Cost of $4,105,540 in 2001 and $2,561,512 in 2000	3,823,099
Mortgage loan	--
Short-term investments, at cost which approximates fair value	8,432,770

Total investments	72,708,689
Cash and cash equivalents	12,537,443
Accrued interest receivable	751,733
Receivables, net	5,333,837
Reinsurance recoverable	2,237,176
Prepaid expenses	167,908
Deferred income taxes	663,832
Property & equipment, net	12,443,189
Deferred policy acquisition costs	1,507,592
Other assets	4,156,608
Intangibles, net	2,078,741
	$ 114,586,748
Liabilities & Stockholders' Equity	
Accounts payable	$ 3,077,236
Reserves for losses and loss adjustment expenses	26,927,053
Unearned premiums	5,511,739
Collateral held	13,994,627
Income taxes	67,021
Other accrued liabilities	983,143
Long-term debt	26,879,752
Total liabilities	77,440,571
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	34,880,553
Accumulated other comprehensive income (loss)	(134,984)
Total Stockholders' Equity	37,146,177
	$ 114,586,748

See Notes to Consolidated Financial Statements.

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ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Earnings (Unaudited)

	Three months ended June 30		Six months ended June 30	
	2001	2000	2001	2000

Earned premiums	$ 1,909,007	2,119,632	3,940,987	4,468,106
Contract revenues	3,774,814	3,197,675	6,439,151	5,710,485
Investment income, net	1,050,933	1,216,594	2,155,118	2,359,148
Net realized capital gains (losses)	242,574	--	264,715	(108,554)
Other income	217,752	241,812	372,024	427,835
	7,195,080	6,775,713	13,171,995	12,857,020
Cost of contract revenues	3,358,804	2,986,343	5,671,614	5,350,573
Losses and loss adjustment expenses	359,198	392,125	771,036	833,785
Amortization of policy acquisition costs	618,918	593,681	976,001	985,360
General and administrative expenses	1,380,289	1,283,344	2,816,881	2,547,892
Interest expense	652,570	731,447	1,343,846	1,477,857
	6,369,779	5,986,940	11,579,378	11,195,467
Earnings before income taxes	825,301	788,773	1,592,617	1,661,553
Income taxes	322,337	226,164	570,754	488,637
Net earnings	$ 502,964	562,609	1,021,863	1,172,916
Basic earnings per share	$ .21	.20	.41	.41
Diluted earnings per share	$ .20	.19	.40	.40

See Notes to Consolidated Financial Statements.

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ACMAT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Unaudited)
June 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 earnings	--	--	--	1,172,916
Total comprehensive income				
Acquisition and retirement of 17,680 shares of Common Stock	(17,680)	--	--	(318,240)
Acquisition and retirement of 18,133 shares of Class A Stock	--	(18,133)	--	(166,976)
Balance as of June 30, 2000	$ 567,148	2,286,454	--	35,839,666
Balance as of December 31, 2000	$ 557,589	2,057,254	--	35,326,305
Comprehensive income:				
Net unrealized gains on debt and equity securities	--	--	--	--
Net earnings	--	--	--	1,021,863
Total comprehensive income				
Acquisition and retirement of 214,235 shares of Class A Stock	--	(214,235)	--	(1,467,615)
Balance as of June 30, 2001	$ 557,589	1,843,019	--	34,880,553

See Notes to Consolidated Financial Statements.

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

	2001	2000
Cash flows from operating activities:		
Net earnings	$ 1,021,863	1,172,916
Adjustments to reconcile net earnings to net cash used for operating activities:		
Depreciation and amortization	824,156	792,340
Net realized capital (gains) losses	(264,715)	108,554
Changes in:		
Accrued interest receivable	281,678	81,618
Reinsurance recoverable	343,212	3,034,509

Receivables, net	(1,193,474)	(206,741)
Deferred policy acquisition costs	(68,845)	(441,272)
Prepaid expenses and other assets	(579,259)	(741,150)
Accounts payable and other accrued liabilities	473,605	(23,335)
Reserves for losses and loss adjustment expenses	(2,383,553)	(6,294,176)
Collateral held	5,321,249	(1,915,155)
Income taxes, net	214,471	194,090
Unearned premiums	68,962	1,166,520
Net cash provided by (used for) operating activities	4,059,350	(3,071,282)
Cash flows from investing activities:		
Proceeds from investments sold or matured:		
Fixed maturities-sold	21,325,519	5,293,654
Fixed maturities-matured	11,260,000	7,661,000
Equity securities	500,000	--
Short term investments	8,160,064	6,495,204
Mortgages	289,625	--
Purchases of:		
Fixed maturities	(22,437,429)	(7,712,627)
Equity securities	(2,000,000)	--
Mortgages	--	(300,531)
Short-term investments	(13,343,769)	(10,129,301)
Capital expenditures	(224,173)	(229,589)
Net cash provided by investing activities	3,529,837	1,077,810
Cash flows from financing activities:		
Repayments on long-term debt	(816,835)	(794,054)
Payments for acquisition & retirement of stock	(1,681,850)	(521,029)
Net cash used for financing activities	(2,498,685)	(1,315,083)
Net change in cash	5,090,502	(3,308,555)
Cash at beginning of period	7,446,941	7,054,911
Cash at end of period	$ 12,537,443	3,746,356

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 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, 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 six-month periods ended June 30, 2001 and 2000:

2001:	Earnings	Average Shares Outstanding	Per-Share Amount
Basic EPS:			
Earnings available to stockholders	$1,021,863	2,480,523	$.41
Effect of Dilutive Securities:			
Stock options	--	58,074	
Diluted EPS:			
Earnings available to stockholders	$1,021,863	2,538,597	$.40
2000:			
Basic EPS:			
Earnings available to stockholders	$1,172,916	2,859,508	$.41
Effect of Dilutive Securities:			
Stock options	--	41,904	
Diluted EPS:			
Earnings available to stockholders	$1,172,916	2,901,412	$.40

The Convertible Notes were anti-dilutive in 2001 and 2000.

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(3) Supplemental Cash Flow Information

Income taxes paid during the six months ended June 30, 2001 and 2000 was $356,280 and $294,547, respectively. Interest paid for the six months ended June

30, 2001 and 2000 was $541,065 and $1,302,508, respectively.

(4) Comprehensive Income

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

	2001	2000
Unrealized gains (losses) on investments:		
Unrealized holding gain (loss) arising during period	$ 497,211	$ 186,1
Less reclassification adjustment for gains (losses) included in net income, net of income tax expense (benefit) of $90,003 and $(36,908) for 2001 and 2000, respectively	174,712	(71,6
Other comprehensive income	$ 322,499	$ 257,7

(5) New 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 six 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.

(6) 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.

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.

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 owner, storage and treatment facilities and professionals. United Coastal also offers products liability insurance to manufacturers and distributors.

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 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 six-month periods ended June 30, 2001 and 2000 is summarized as follows:

	Three Months ended		Six Months ended	
	2001	2000	2001	2000
Revenues:				
ACSTAR Bonding	$1,595,462	1,375,302	2,975,051	3,022,938
United Coastal Liability Insurance	1,563,468	1,796,108	3,281,977	3,450,734
ACMAT Contracting	4,528,667	4,460,496	8,239,498	8,063,206
	$7,687,597	7,631,906	14,496,526	14,536,878
Operating Earnings:				
ACSTAR Bonding	$ 684,830	280,239	1,149,645	990,457
United Coastal Liability Insurance	734,606	873,337	1,476,389	1,561,399
ACMAT Contracting	176,032	477,354	552,566	806,365
	$1,595,468	1,630,930	3,178,600	3,358,221
Depreciation and Amortization:				
ACSTAR Bonding	$ 154,929	127,159	306,126	260,584

United Coastal Liability Insurance	75,306	98,435	162,423	200,729
ACMAT Contracting	188,600	149,217	355,607	331,111
	$ 418,835	374,811	824,156	792,424

Identifiable Assets:	June 30, 2001	December 31, 2000
ACSTAR Bonding	$ 46,820,242	41,801,164
United Coastal Liability Insurance	49,378,938	52,781,561
ACMAT Contracting	18,387,568	17,633,644
	$114,586,748	112,216,369

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

	Three Months ended		Six Months ended	
	2001	2000	2001	2000
ACSTAR Bonding:				
Premiums	$1,078,062	1,076,284	2,060,366	2,361,09
Investment income, net	391,304	299,018	779,273	643,54
Capital gains	126,096	--	129,846	--
Other	--	--	5,566	18,30
	$1,595,462	1,375,302	2,975,051	3,022,93
United Coastal Liability Insurance:				
Premiums	$ 830,945	1,043,348	1,880,621	2,107,01
Investment income, net	612,118	748,384	1,262,009	1,445,90
Capital gains/(losses)	116,478	--	134,869	(108,55
Other	3,927	4,376	4,478	6,36
	$1,563,468	1,796,108	3,281,977	3,450,73
ACMAT Contracting:				
Contract revenues	$3,774,814	3,197,675	6,439,151	5,710,48
Investment income, net	5,273	13,455	26,602	47,01
Intersegment revenue:				
Rental income	305,341	310,737	667,112	649,75
Underwriting services, agency commissions and funds administration services	229,414	701,193	744,653	1,252,78
Other	213,825	237,436	361,980	403,16
	$4,528,667	4,460,496	8,239,498	8,063,20

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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		Six Mont
Revenue:	2001	2000	2001
Total revenue for reportable segments	$ 7,687,597	7,631,906	14,496,526
Intersegment eliminations	(492,517)	(856,193)	(1,324,531)
	$ 7,195,080	6,775,713	13,171,995
Operating Earnings:			
Total operating earnings for reportable segments	$ 1,595,468	1,630,930	3,178,600
Interest expense	(652,570)	(731,447)	(1,343,846)
Other operating expenses	(117,597)	(110,710)	(242,137)
	$ 825,301	788,773	1,592,617

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.

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ACMAT CORPORATION

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

CONSOLIDATED RESULTS OF OPERATIONS:

Net earnings were $502,964 for the three months ended June 30, 2001 compared to $562,609 for the same period a year ago. Net earnings for the six months ended

June 30, 2001 were $1,021,863 compared to $1,172,916 for the six months ended June 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 $7,195,080 for the three months ended June 30, 2001 compared to $6,775,713 for the same period in 2000. Revenues were $13,171,995 for the six months ended June 30, 2001 compared to $12,857,020 for the same period in 2000. Earned premiums were $1,909,007 for the three months ended June 30, 2001 compared to $2,119,632 for the same period a year ago. Earned premiums were $3,940,987 for the six months ended June 30, 2001 compared to $4,468,106 for the same period in 2000. Contract revenues were $3,774,814 for the three months ended June 30, 2001 compared to $3,197,675 for the same period a year ago. Contract revenues were $6,439,151 for the six months ended June 30, 2001 compared to $5,710,485 for the six months ended June 30, 2000. Contract revenue is difficult to predict and depends greatly on the successful securement of contracts bid.

Investment income was $1,050,933 for the three months ended June 30, 2001 compared to $1,216,594 for the same period in 2000. Investment income was $2,155,118 for the six months ended June 30, 2001 compared to $2,359,148 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 and purchase Company stock. Net realized capital gains for the three months ended June 30, 2001 were $242,574 compared to no realized capital gains or losses for the same period a year ago. Net realized capital gains were $264,715 for the six months ended June 30, 2001 compared to net realized capital losses of $108,554 for the same period a year ago.

Other income was $217,752 for the three months ended June 30, 2001 compared to $241,812 for the same period in 2000. Other income was $372,024 for the six months ended June 30, 2001 compared to $427,835 for the six months ended June 30, 2000. Other income consists primarily of rental income.

Losses and loss adjustment expenses were $359,198 for the three months ended June 30, 2001 compared to $392,125 for the same period a year ago. Losses and loss adjustment expenses were $771,036 for the six months ended June 30, 2001 compared to $833,785 for the same period a year ago. The decreases in losses and loss adjustment expenses are attributable to the decline in earned premiums. Amortization of policy acquisition costs were $618,918 for the three months ended June 30, 2001 compared to $593,681 for the same period in 2000. Amortization of policy acquisition costs were $976,001 for the six months ended June 30, 2001 compared to $985,360 for the six months ended June 30, 2000.

Costs of contract revenues were $3,358,804 for the three months ended June 30, 2001 compared to $2,986,343 for the same period a year ago, representing gross profit margin 11.0% and 6.6%, respectively. Costs of contract revenues were $5,671,614 for the six months ended June 30, 2001 compared to $5,350,573 for the same period a year ago, representing gross profit margins of 11.9% and 6.3%, respectively. Gross margin fluctuates each year based upon the profitability of specific projects.

General and administrative expenses were $1,380,289 for the three months ended June 30, 2001 compared to $1,283,344 for the same period a year ago. General and administrative expenses were $2,816,881 for the six months ended June 30, 2001 compared to $2,547,892 for the six months ended June 30, 2000. The increase in general and administrative expenses in 2001 compared to 2000 is due primarily to the increase in depreciation expense and a salary expense and an increase in utility costs associated with operating the Company headquarters.

Interest expense was $652,570 for the three months ended June 30, 2001 compared to $731,447 for the same period in 2000. Interest expense was $1,343,846 for the six months ended June 30, 2001 compared to $1,477,857 for the same period a year ago. The decrease in interest expense is due to the decrease in long-term debt.

Income tax expense was $322,337 for the three months ended June 30, 2001 compared to $226,164 for the same period a year ago representing effective tax rates of 39.1% and 28.7%, respectively. Income tax expense was $570,754 for the six months ended June 30, 2001 compared to $488,637 for the same period a year ago, representing effective tax rates of 35.8% and 29.4%, respectively. The fluctuation in the effective tax rate is due to tax exempt interest income making up a smaller portion of taxable income in 2001 and an increase in state taxes in 2001.

Results of Operations by Segment:

ACSTAR BONDING:	Three Months ended June 30,		Six Months ended June 30,	
	2001	2000	2001	2000
Revenue	$1,595,462	1,375,302	$2,975,051	3,022,938
Operating Earnings	$ 684,830	280,239	$1,149,645	990,457

Revenues for the ACSTAR Bonding segment were $1,595,462 for the three months ended June 30, 2001 compared to $1,375,302 for the same period in 2000. Revenues for the ACSTAR Bonding segment were $2,975,051 for the six months ended June 30, 2001 compared to $3,022,938 for the six months ended June 30, 2000. Net written premiums were $986,518 for the three months ended June 30, 2001 compared to $1,044,616 for the three months ended June 30, 2000. Net written premiums were $1,826,951 for the six months ended June 30, 2001 compared to $2,414,245 for the same period a year ago. Earned premiums were $1,078,062 for the three months ended June 30, 2001 compared to $1,076,284 for the three months ended June 30, 2000. Earned premiums were $2,060,366 for the six months ended June 30, 2001 compared to $2,361,090 for the six months ended June 30, 2000.

The lower net written premiums and earned premiums for the three months ended June 30, 2001 as compared to the three months ended June 30, 2000 reflect the Company's new reinsurance treaty. Effective May 1, 2000, the Company ceded 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 $391,304 for the three months ended June 30, 2001 compared to $299,018 for the same period a year ago. Investment income was $779,273 for the six months ended June 30, 2001 compared to $643,547 for the six months ended June 30, 2000. The investment income reflects an increase in invested assets and an increase in the effective yield on those invested assets.

Operating earnings for the ACSTAR Bonding segment were $684,830 for the three months ended June 30, 2001 compared to $280,239 for the same period in 2000. Operating earnings for the six months ended June 30, 2001 were $1,149,645 compared to $990,457 for the six months ended June 30, 2000. The 2000 operating earnings reflect the Company's implementation of a Funds Administration Agreement with ACMAT.

Losses and loss adjustment expenses were $109,916 for the three months ended June 30, 2001 compared to $55,288 for the same period a year ago. Losses and loss adjustment expenses were $206,851 for the six months ended June 30, 2001 compared to $131,488 for the same period a year ago. Amortization of policy acquisition costs were $467,471 for the three months ended June 30, 2001 compared to $462,841 for the same period in 2000. Amortization of policy acquisition were $876,659 for the six months ended June 30, 2001 compared to $928,248 for the same period a year ago.

General and administrative expenses were $333,245 for the three months ended June 30, 2001 compared to $576,934 for the same period a year ago. General and administrative expenses were $741,896 for the six months ended June 30, 2001 compared to $972,745 for the same period a year ago. The decrease in general and administrative expenses is due primarily to reduced fee expense from a Funds Administration Agreement implemented with ACMAT during 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 June 30,		Six Months ended June 30,	
	2001	2000	2001	2000
Revenue	$1,563,468	1,796,108	$3,281,977	3,450,700
Operating Earnings	$ 734,606	873,337	$1,476,389	1,561,399

Revenues for the United Coastal Liability Insurance segment were $1,563,468 for the three months ended June 30, 2001 compared to $1,796,108 for the same period in 2000. Revenues for the United Coastal Liability Insurance segment were $3,281,977 for the six months ended June 30, 2001 compared to $3,450,734 for the six months ended June 30, 2000. The 2001 decrease in revenue reflects a decrease in earned premiums and investment income compared to 2000. Net written premiums were $245,691 for the three months ended June 30, 2001 compared to $1,013,921 for the three months ended June 30, 2000. Net written premiums were $1,947,232 for the six months ended June 30, 2001 compared to $2,667,559 for the same period a year ago. Earned premiums were $830,945 for the three months ended June 30, 2001 compared to $1,043,348 for the three months ended June 30, 2000. Earned premiums were $1,880,621 for the six months ended June 30, 2001 compared to $2,107,017 for the six months ended June 30, 2000. The decrease in revenues result primarily from the use of invested assets to reduce Company debt.

Investment income was $612,118 for the three months ended June 30, 2001 compared to $748,384 for the same period a year ago. Investment income was $1,262,009 for the six months ended June 30, 2001 compared to $1,445,906 for the six months ended June 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 for the three months ended June 30, 2001 were $116,478 as compared to no realized capital gains or losses for the same period a year ago.

Operating earnings for the United Coastal Liability Insurance segment were

$734,606 for the three months ended June 30, 2001 as compared to $873,337 for the same period in 2000. Operating earnings for the six months ended June 30, 2001 were $1,476,389 compared to $1,561,399 for the six months ended June 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 $249,282 for the three months ended June 30, 2001 compared to $336,837 for the same period a year ago. Losses and loss adjustment expenses were $564,185 for the six months ended June 30, 2001 compared to $702,297 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 $301,833 for the three months ended June 30, 2001 as compared to $333,770 for the same period in 2000. Amortization of policy acquisition were $642,670 for the six months ended June 30, 2001 compared to $659,796 for the same period a year ago. The amortization of policy acquisition costs is impacted by the new reinsurance treaty.

General and administrative expenses were $277,747 for the three months ended June 30, 2001 compared to $252,164 for the same period a year ago. General and administrative expenses were $598,733 for the six months ended June 30, 2001 compared to $527,242 for the same period a year ago.

ACMAT CONTRACTING:	Three Months ended June 30		Six Months ended June 30,	
	2001	2000	2001	2000
Revenue	$4,528,667	4,460,496	8,239,498	8,063,206
Operating Earnings	$ 176,032	477,354	552,566	806,365

Revenues for the ACMAT Contracting segment were $4,528,667 for the three months ended June 30, 2001 compared to $4,460,496 for the same period in 2000. Revenues were $8,239,498 for the six months ended June 30, 2001 compared to $8,063,206 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.

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Operating earnings for the ACMAT Contracting segment were $176,032 for the three months ended June 30, 2001 compared to $477,354 for the same period a year ago. Operating earnings were $552,566 for the six months ended June 30, 2001 compared to $806,365 for the six months ended June 30, 2000. The decrease in 2001 operating earnings compared to 2000 operating earnings is due primarily to reduced fee income from the Funds Administration Agreement implemented with ACSTAR during the second quarter of 2000 and lower gross margins on the 2000 projects.

Cost of contract revenues were $3,358,804 for the three months ended June 30, 2001 compared to $2,986,343 for the same period in 2000 representing gross profit margin of 11.0% and 6.6%, respectively. Cost of contract revenues were $5,671,614 for the six months ended June 30, 2001 compared to $5,350,573 for the same period a year ago, representing gross profit margins of 11.9% and 6.3%, respectively. Gross margin fluctuates each year based upon the profitability of specific projects.

General and administrative expenses were $993,831 for the three months ended June 30, 2001 compared to $996,799 for the same period a year ago. General and administrative expenses were $1,952,041 for the six months ended June 30, 2001 compared to $1,906,268 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 June 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 19.6% and 18.7% for the six-month periods ended June 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 71.6% and 60.9% for the six-month period ended June 30, 2001 and 2000, respectively. The Company's insurance subsidiaries' combined ratios under GAAP were 91.2% and 79.6% for the six-month period ended June 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. ACMAT has recently relied on dividends from its insurance subsidiaries to repay debt.

The Company generated cash flow from operations of $4,059,350 for the six-month period ended June 30, 2001 compared to cash flow used for operations of $3,071,282 for the same period in 2000. Net cash flows used for operations in 2001 resulted primarily from

cash flow used for operation of 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 provided by investing activities in the first six-months of 2001 amounted to $3,529,837 compared to $1,077,810 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 June 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 June 30, 2001.

During the six-month period ended June 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 their domestic State insurance departments, are limited to approximately $6,900,000 in 2001.

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 June 30, 2001 was above the level which might require regulatory action.

Part II - Other Information

Item 4. - Submission of Matters to a Vote of Security Holders

a. The Annual Meeting of Stockholders of ACMAT Corporation was held on Thursday, June 21, 2001.

b. Directors elected at the meeting:

	Votes For	Votes Against	Brokers Non-Votes
Henry Nozko, Sr.	649,180	2,706	
Henry Nozko, Jr.	694,450	2,376	
Victoria Nozko	695,510	1,306	
John Creasy	695,510	1,306	
Arthur Moore	695,771	1,055	
Alfred T. Zlotopolski	695,761	1,065	

c. Other matters voted upon:

	For	Against	Abstain	Brokers Non-Votes
1. Appointment of Independent Auditors	696,756	70		

Item 6 - Exhibits and Reports on Form 8-K

b. Report on Form 8-K - None