ACMAT CORP
Form 10-Q
August 14, 2002

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, 2002

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______ to ______

Commission file number 0-6234

ACMAT CORPORATION

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

233 Main Street, New Britain, Connecticut 06050-2350

(Address of principal executive offices)

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

NONE

(Former name, former address and former fiscal year, if changed since last report)

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

Yes [X] No [ ]

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

Title of Class	Shares outstanding at July 31, 2002
Common Stock	553,355
Class A Stock	1,825,019

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ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets

Assets	June 30, 2002 (Unaudited)
Investments:	
Fixed maturities-available for sale at fair value (Cost of $60,951,959 in 2002 and $61,841,391 in 2001)	$ 61,800,189
Equity securities, at fair value (Cost of $6,344,300 in 2002 and $5,065,262 in 2001	6,535,016

Short-term investments, at cost which approximates fair value	1,691,871
Total investments	70,027,076
Cash and cash equivalents	12,370,283
Accrued interest receivable	577,836
Receivables, net	7,858,238
Reinsurance recoverable	6,164,934
Prepaid expenses	117,867
Income tax receivable	1,342,591
Deferred income taxes	378,003
Property & equipment, net	12,037,455
Deferred policy acquisition costs	1,275,976
Other assets	3,004,229
Intangibles, net	1,920,360
	$117,074,848
Liabilities & Stockholders' Equity	
Accounts payable	$ 5,763,698
Reserves for losses and loss adjustment expenses	27,397,484
Unearned premiums	4,626,209
Collateral held	16,405,244
Income taxes	--
Other accrued liabilities	612,054
Long-term debt	22,559,982
Total liabilities	77,364,671
Commitments and contingencies	
Stockholders' Equity:	
Common Stock (No par value; 3,500,000 shares authorized; 553,355 and 557,589 shares issued and outstanding)	553,355
Class A Stock (No par value; 10,000,000 shares authorized; 1,825,019 and 1,827,019 shared and outstanding)	1,825,019
Retained earnings	36,890,928
Accumulated other comprehensive income	440,875
Total Stockholders' Equity	39,710,177
	$117,074,848

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 June 30
	2002	2001	2002

Contract revenues	$ 6,634,068	3,774,814	11,801,599
Earned premiums	2,058,341	1,909,007	$ 3,597,877
Investment income, net	913,114	1,050,933	1,797,627
Net realized capital gains (losses)	(691)	242,574	16,962
Life insurance proceeds, net	--	--	3,348,903
Other income	265,357	217,752	368,357
	9,870,189	7,195,080	20,931,325
Cost of contract revenues	6,937,171	3,358,804	12,611,912
Losses and loss adjustment expenses	496,680	359,198	3,078,223
Amortization of policy acquisition costs	416,256	618,918	848,819
General and administrative expenses	1,254,136	1,380,289	2,694,679
Interest expense	505,868	652,570	1,043,082
	9,610,111	6,369,779	20,276,715
Earnings before income taxes (benefits)	260,078	825,301	654,610
Income taxes (benefits)	(546,085)	322,337	(888,862)
Net earnings	$ 806,163	502,964	1,543,472
Basic earnings per share	$ .34	.21	.65
Diluted earnings per share	$ .33	.20	.63

See Notes to Consolidated Financial Statements.

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ACMAT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Unaudited)
June 30, 2002 and 2001

	Common stock par Value	Class A stock par Value	Additional paid-in capital	Retained Earnings
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
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	--	--	--	1,543,472
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 June 30, 2002	$ 553,355	1,825,019	--	36,890,928

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, 2002 and 2001

	2002	200
Cash flows from operating activities:		
Net earnings	$ 1,543,472	1,02
Adjustments to reconcile net earnings to net cash used for		

operating activities:		
Depreciation and amortization	532,199	82
Net realized capital (gains) losses	(16,962)	(26
Changes in:		
Accrued interest receivable	172,242	28
Reinsurance recoverable	(3,392,266)	34
Receivables, net	(3,018,679)	(1,19
Deferred policy acquisition costs	(110,420)	(6
Prepaid expenses and other assets	1,884,807	(57
Accounts payable and other accrued liabilities	2,137,883	47
Reserves for losses and loss adjustment expenses	4,811,858	(2,38
Collateral held	456,608	5,32
Income taxes, net	(1,417,166)	21
Unearned premiums	471,012	6
Net cash provided by operating activities	4,054,588	4,05
Cash flows from investing activities:		
Proceeds from investments sold or matured:		
Fixed maturities-sold	4,395,321	21,32
Fixed maturities-matured	8,590,000	11,26
Equity securities	636,490	50
Short term investments	4,407,970	8,16
Mortgages	--	28
Purchases of:		
Fixed maturities	(12,232,708)	(22,43
Equity securities	(2,275,000)	(2,00
Short-term investments	(5,728,097)	(13,34
Capital expenditures	(153,706)	(22
Net cash provided by (used for) investing activities	(2,359,730)	3,52
Cash flows from financing activities:		
Repayments on long-term debt	(1,990,379)	(81
Issuance of Class A Stock	54,375	
Payments for acquisition & retirement of stock	(173,377)	(1,68
Net cash used for financing activities	(2,109,381)	(2,49
Net change in cash	(414,523)	5,09
Cash at beginning of period	12,784,806	7,44
Cash at end of period	$ 12,370,283	12,53

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, 2001.

(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 three-month periods ended June 30, 2002 and 2001:

2002:	Earnings	Average Shares Outstanding	Per-Share Amount
Basic EPS:			
Earnings available to stockholders	$ 806,163	2,379,032	$.34
Effect of Dilutive Securities:			
Stock options	--	68,423	
Diluted EPS:			
Earnings available to stockholders	$ 806,163	2,447,455	$.33
2001:			
Basic EPS:			
Earnings available to stockholders	$ 502,964	2,434,218	$.21
Effect of Dilutive Securities:			
Stock options	--	63,570	
Diluted EPS:			
Earnings available to stockholders	$ 502,964	2,497,788	$.20

The following is a reconciliation of the numerators and denominators of the basic and diluted EPS computations for the six-month periods ended June 30, 2002 and 2001:

2002:	Earnings	Average Shares Outstanding	Per-Share Amount
Basic EPS:			
Earnings available to stockholders	$1,543,472	2,380,529	$.65
Effect of Dilutive Securities:			
Stock options	--	62,783	
Diluted EPS:			
Earnings available to stockholders	$1,543,472	2,443,314	$.63
2001:			
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

The Convertible Notes were anti-dilutive in 2002 and 2001.

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(3) Supplemental Cash Flow Information

Income taxes paid during the six months ended June 30, 2002 and 2001 was $538,302 and $356,280, respectively. Interest paid for the six months ended June 30, 2002 and 2001 was $1,098,178 and $541,065, 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, 2002 and 2001:

	2002	2001
Unrealized gains on investments:		
Unrealized holding gain arising during period	$324,729	$497,211
Less reclassification adjustment for gains included in net income, net of income tax expense of $5,767 and $90,003 for 2002 and 2001, respectively	11,195	174,712
Other comprehensive income	$313,534	$322,499

(5) Accounting Changes

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.

Upon adoption of SFAS No. 142, on January 1, 2002, the Company evaluated its existing intangible asset that was acquired in a purchase business combination, to make any necessary reclassifications in order to conform with the new classification criteria in SFAS No. 141 for recognition separate from goodwill. The Company reassessed the useful lives and residual values of all intangible assets acquired. If an intangible asset is identified as having an indefinite useful life, the Company will be required to test the intangible asset for impairment in accordance with the provisions of SFAS No. 142. Impairment is measured as the excess of carrying value over the fair value of an intangible asset with an indefinite life. Any impairment loss will be measured as of the date of adoption and recognized as the cumulative effect of a change in accounting principle.

As of January 1, 2002, the Company had an unamortized asset in the amount of $1,920,360 which was subject to the transition provisions of SFAS No. 142. The Company stopped amortizing intangibles on January 1, 2002. Net earnings and earnings per share adjusted to exclude intangible amortization for the three and six-month periods ended June 30, 2001 are as follows:

	Three months ended June 30, 2001	Six months ended June 30, 2001
Net Earnings	$ 502,964	$ 1,021,863
Intangible Amortization	38,073	76,146
Adjusted Net Earnings	541,037	1,098,009
Basic earnings per share:		
Reported earnings per share	$ .21	$ .41
Intangible amortization	.02	.03
Adjusted earnings per share	.23	.44
Diluted earnings per share:		
Reported earnings per share	$ .20	$ .40
Intangible amortization	.01	.03
Adjusted earnings per share	.21	.43

In addition, the Company has performed the transitional impairment tests using the fair value approach required by the new standard. Based on these tests, the Company did not impair any intangible asset.

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(6) Accounting Standards Not Yet Adopted

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" (FAS 143). FAS 143 changes the measurement of an asset retirement obligation from a cost-accumulation approach to a fair value approach, where the fair value (discounted value) of an asset retirement obligation is recognized as a liability in the period in which it is incurred and accretion expense is recognized using the credit-adjusted risk-free interest rate in effect when the liability was initially recognized. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and subsequently amortized into expense. The pre-FAS 143 prescribed practice of reporting a retirement obligation as a contra-asset will no longer be allowed. The Company is in the process of assessing the impact that will take 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 does not expect the impact of this new standard to be significant.

(7) 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. At the time of his death, Mr. Nozko, Sr. owned of record or beneficially shares of the Corporation's Common Stock and Class A Stock having approximately 53% of the total voting power of the Corporation's voting capital stock. During the pendency of Mr. Nozko's estate, such voting power has been vested in the executors of the estate who are his son, Henry W. Nozko, Jr., the current Chairman, President and Chief Executive Officer of the Corporation, and his daughter Pamela N. Cosmas.

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 first quarter of 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.

(8) 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.

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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, 2002 and 2001 is summarized as follows:

	Three Months ended	
	2002	2001
Revenues:		
ACSTAR Bonding	$ 1,545,516	1,595,462
United Coastal Liability Insurance	1,338,764	1,563,468
ACMAT Contracting	7,615,271	4,528,667
	$ 10,499,551	7,687,597
Operating Earnings (Loss):		
ACSTAR Bonding	$ 599,538	684,830
United Coastal Liability Insurance	759,350	734,606
ACMAT Contracting	(592,942)	176,032
	$ 765,946	1,595,468
Depreciation and Amortization:		
ACSTAR Bonding	99,280	154,929
United Coastal Liability Insurance	50,712	75,306
ACMAT Contracting	88,623	188,600

	$ 238,615	418,835

Identifiable Assets:	June 30, 2002	December 31, 2001
ACSTAR Bonding	$ 48,017,778	48,282,555
United Coastal Liability Insurance	48,682,058	42,801,086
ACMAT Contracting	20,375,012	18,379,815
	$117,074,848	109,463,456

The components of revenue for each segment for the three and six-month periods ended June 30, 2002 and 2001 are as follows:

	Three Months ended		Six Month
	2002	2001	2002
ACSTAR Bonding:			
Premiums	$ 1,208,216	1,078,062	2,011,394
Investment income, net	338,004	391,304	668,384
Capital gains	--	126,096	(237)
Other	(704)	--	(1,158)
	$ 1,545,516	1,595,462	2,678,383
United Coastal Liability Insurance:			
Premiums	$ 850,125	830,945	1,586,483
Investment income, net	484,704	612,118	966,064
Capital gains/(losses)	(691)	116,478	17,199
Other	4,626	3,927	7,234
	$ 1,338,764	1,563,468	2,576,980
ACMAT Contracting:			
Contract revenues	$ 6,634,068	3,774,814	11,801,599
Investment income, net	40,892	5,273	83,665
Intersegment revenue:			
Rental income	305,340	305,341	675,319
Underwriting services, agency commissions and funds administration services	372,353	229,414	564,084
Other	262,618	213,825	362,281
	$ 7,615,271	4,528,667	13,486,948

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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:

Revenue:	Three Months ended 2002	2001	2002
Total revenue for reportable segments	$ 10,499,551	7,687,597	18,742,
Life insurance proceeds, net	--	--	3,348,
Intersegment eliminations	(629,362)	(492,517)	(1,159,
	$ 9,870,189	7,195,080	20,931,

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	$765,946	1,595,468	(1,651,211)
Interest expense	(505,868)	(652,570)	(1,043,082)
Life insurance proceeds, net	--	--	3,348,903
Other operating expenses	--	(117,597)	--
	$260,078	825,301	654,610

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.

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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 $806,163 for the three months ended June 30, 2002 compared to $502,964 for the same period a year ago. Net earnings for the six months ended June 30, 2002 were $1,543,472 compared to $1,021,863 for the six months ended June 30, 2001. Net earnings for the three months ended June 30, 2002 reflect additional remediation expenses incurred on a construction project that significantly exceeded the original estimate, tax benefits and lower capital gains as compared to the same quarter a year ago. The increase in net earnings for the six months ended June 30, 2002 reflects the net affect 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, additional remediation expenses incurred on a construction project that significantly exceeded the original estimate and lower capital gains.

Revenues were $9,870,189 for the three months ended June 30, 2002 compared to $7,195,080 for the same period in 2001. Revenues were $20,931,325 for the six months ended June 30, 2002 compared to $13,171,995 for the same period in 2001. Earned premiums were $2,058,341 for the three months ended June 30, 2002 compared to $1,909,007 for the same period a year ago. Earned premiums were $3,597,877 for the six months ended June 30, 2002 compared to $3,940,987 for the same period in 2001. Contract revenues were $6,634,068 for the three months ended June 30, 2002 compared to $3,774,814 for the same period a year ago. Contract revenues were $11,801,599 for the six months ended June 30, 2002 compared to $6,439,151 for the six months ended June 30, 2001. Contract revenue is difficult to predict and depends greatly on the successful securement of contracts bid.

Investment income was $913,114 for the three months ended June 30, 2002 compared to $1,050,933 for the same period in 2001. Investment income was $1,797,627 for the six months ended June 30, 2002 compared to $2,155,118 for the same period in 2001. 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 losses for the three months ended June 30, 2002 were $691 compared to net realized capital gains of $242,574 for the same period a year ago. Net realized capital gains were $16,962 for the six months ended June 30, 2002 compared to net realized capital gains of $264,715 for the same period a year ago.

Life insurance proceeds 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 $265,357 for the three months ended June 30, 2002 compared to $217,752 for the same period in 2001. Other income was $368,357 for the six months ended June 30, 2002 compared to $372,024 for the six months ended June 30, 2001. Other income consists primarily of rental income.

Losses and loss adjustment expenses were $496,680 for the three months ended June 30, 2002 compared to $359,198 for the same period a year ago. Losses and loss adjustment expenses were $3,078,223 for the six months ended June 30, 2002 compared to $771,036 for the same period a year ago. The increase in losses and loss adjustment expenses is attributable to the strengthening of loss reserves due to adverse development in prior years. During the six-month period ended June 30, 2002, the Company increased reserves by a net amount of $2,220,000. Amortization of policy acquisition costs were $416,256 for the three months ended June 30, 2002 compared to $618,918 for the same period in 2001. Amortization of policy acquisition costs were $848,819 for the six months ended June 30, 2002 compared to $976,001 for the six months ended June 30, 2001. The decrease in amortization of policy acquisition costs reflects a decrease in commissions paid.

Costs of contract revenues were $6,937,171 for the three months ended June 30, 2002 compared to $3,358,804 for the same period a year ago, representing gross profit (loss) margin (4.6)% and 11.0%, respectively. Costs of contract revenues were $12,611,912 for the six months ended June 30, 2002 compared to $5,671,614 for the same period a year ago, representing gross profit (loss) margins of (6.9)% and 11.9%, 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 $1,254,136 for the three months ended June 30, 2002 compared to $1,380,289 for the same period a year ago. General and administrative expenses were $2,694,679 for the six months ended June 30, 2002 compared to $2,816,881 for the six months ended June 30, 2001. The decrease in general and administrative expenses in 2002 compared to 2001 is due primarily to no further amortization expense related to intangibles.

Interest expense was $505,868 for the three months ended June 30, 2002 compared to $652,570 for the same period in 2001. Interest expense was $1,043,082 for the six months ended June 30, 2002 compared to $1,343,846 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 by lower interest bearing debt.

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Income tax benefit was $546,085 for the three months ended June 30, 2002 compared to income tax expense of $322,337 for the same period a year ago representing effective tax rates of (210)% and 39.1%, respectively. Income tax benefit was ($888,862) for the six months ended June 30, 2002 compared to income tax expense of $570,754 for the same period a year ago, representing effective tax rates of (136)% and 35.8%, respectively. The change in the effective rate is primarily due to the recognition of net life insurance proceeds during the three months ended March 31, 2002 which are exempt for income tax purposes.

Results of Operations by Segment:

ACSTAR BONDING:	Three Months ended June 30,		Six Months ended June 30,	
	2002	2001	2002	2001
Revenue	$1,545,516	1,595,462	$2,678,383	2,975,051
Operating Earnings	$ 599,538	684,830	$ 361,358	1,149,645

Revenues for the ACSTAR Bonding segment were $1,545,516 for the three months ended June 30, 2002 compared to $1,595,462 for the same period in 2001. Revenues for the ACSTAR Bonding segment were $2,678,383 for the six months ended June 30, 2002 compared to $2,975,051 for the six months ended June 30, 2001. Net written premiums were $1,359,801 for the three months ended June 30, 2002 compared to $986,518 for the three months ended June 30, 2001. Net written premiums were $2,026,933 for the six months ended June 30, 2002 compared to $1,826,951 for the same period a year ago. Earned premiums were $1,208,216 for the three months ended June 30, 2002 compared to $1,078,062 for the three months ended June 30, 2001. Earned premiums were $2,011,394 for the six months ended June 30, 2002 compared to $2,060,366 for the six months ended June 30, 2001.

The increase in net written premiums for the three and six months ended June 30, 2002 as compared to the three and six months ended June 30, 2001 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 $338,004 for the three months ended June 30, 2002 compared to $391,304 for the same period a year ago. Investment income was $668,384 for the six months ended June 30, 2002 compared to $779,273 for the six months ended June 30, 2001. The investment income reflects a decrease in the effective yield on invested assets.

Operating earnings for the ACSTAR Bonding segment were $599,538 for the three months ended June 30, 2002 compared to $684,830 for the same period in 2001. Operating earnings for the six months ended June 30, 2002 were $361,358 compared to $1,149,645 for the six months ended June 30, 2001. The operating earnings for the six months ended June 30, 2002 reflect the addition of $500,000, net of recoveries, to loss reserves for adverse development in prior years.

Losses and loss adjustment expenses were $241,643 for the three months ended June 30, 2002 compared to $109,916 for the same period a year ago. Losses and loss adjustment expenses were $902,279 for the six months ended June 30, 2002 compared to $206,851 for the same period a year ago. The increase in losses and loss adjustment expenses for the six months ended June 30, 2002 reflects the emergence of adverse loss trends in the current year and strengthening of loss reserves due to adverse development in prior years partially offset by one-time salvage recovery of $1,677,851 in the current year. As a result of this strengthening, the Company increased ACSTAR reserves by a net amount of $500,000. Amortization of policy acquisition costs were $461,380 for the three months ended June 30, 2002 compared to $467,471 for the same period in 2001. Amortization of policy acquisition were $799,408 for the six months ended June 30, 2002 compared to $876,659 for the same period a year ago.

General and administrative expenses were $242,955 for the three months ended June 30, 2002 compared to $333,245 for the same period a year ago. General and administrative expenses were $615,338 for the six months ended June 30, 2002 compared to $741,896 for the same period a year ago. The decrease in general and administrative expenses is due primarily to no further amortization expense related to intangibles and a one-time rent recovery from an affiliate.

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UNITED COASTAL LIABILITY INSURANCE:	Three Months ended June 30,		Six Months ended Jun	
	2002	2001	2002	
Revenue	$1,338,764	1,563,468	$ 2,576,980	3
Operating Earnings (Loss)	$ 759,350	734,606	$ (503,803)	1

Revenues for the United Coastal Liability Insurance segment were $1,338,764 for the three months ended June 30, 2002 compared to $1,563,468 for the same period in 2001. Revenues were $2,576,980 for the six months ended June 30, 2002 compared to $3,281,977 for the six months ended June 30, 2001. Net written premiums were $1,166,080 for the three months ended June 30, 2002 compared to $245,691 for the three months ended June 30, 2001. Net written premiums were $1,970,835 for the six months ended June 30, 2002 compared to $1,947,232 for the same period a year ago. Earned premiums were $850,125 for the three months ended June 30, 2002 compared to $830,945 for the three months ended June 30, 2001. Earned premiums were $1,586,483 for the six months ended June 30, 2002 compared to $1,880,621 for the six months ended June 30, 2001. The increase in net written premiums reflects the impact of the favorable insurance rate market and an increase in new business.

Investment income was $484,704 for the three months ended June 30, 2002 compared to $612,118 for the same period a year ago. Investment income was $966,064 for the six months ended June 30, 2002 compared to $1,262,009 for the six months ended June 30, 2001. The decrease in investment income was primarily related to a decrease in the effective yield on invested assets and a decrease in the amount of invested assets. Net realized capital losses for the three months ended June 30, 2002 were $691 as compared to net realized capital gains of $116,478 for the same period a year ago. Net realized capital gains for the six month period ended June 30, 2002 were $17,199 as compared to $134,869 for the same period a year ago.

Operating earnings for the United Coastal Liability Insurance segment were $759,350 for the three months ended June 30, 2002 as compared to $734,606 for the same period in 2001. Operating losses for the six months ended June 30, 2002 were $503,803 compared to operating earnings of $1,476,389 for the six months ended June 30, 2001. The operating loss for the six months ended June 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 $255,037 for the three months ended June 30, 2002 compared to $249,282 for the same period a year ago. Losses and loss adjustment expenses were $2,175,944 for the six months ended June 30, 2002 compared to $564,185 for the same period a year ago. The increase in losses and loss adjustment expenses for the six months ended June 30, 2002 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 $207,094 for the three months ended June 30, 2002 as compared to $301,833 for the same period in 2001. Amortization of policy acquisition were $426,973 for the six months ended June 30, 2002 compared to $642,670 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 $117,283 for the three months ended June 30, 2002 compared to $277,747 for the same period a year ago. General and administrative expenses were $477,866 for the six months ended June 30, 2002 compared to $598,733 for the same period a year ago. The decrease in general and administrative expenses is due primarily to a reduction in rent expense from a one-time rent recovery from an affiliate.

ACMAT CONTRACTING:	Three Months ended June 30		Six Months ended
	2002	2001	2002
Revenue	$ 7,615,271	4,528,667	13,486,948
Operating Earnings (Loss)	$ (592,942)	176,032	(1,508,766)

Revenues for the ACMAT Contracting segment were $7,615,271 for the three months ended June 30, 2002 compared to $4,528,667 for the same period in 2001. Revenues were $13,486,948 for the six months ended June 30, 2002 compared to $8,239,498 for the same period a year ago. The 2002 increase in revenue reflects an increase in contract revenues compared to 2001 due to the timing of three large projects in 2002. Contract revenue is difficult to predict and depends greatly on the successful securement of contracts bid.

Operating losses for the ACMAT Contracting segment were $592,942 for the three months ended June 30, 2002 compared to operating earnings of $176,032 for the same period a year ago. Operating losses were $1,508,766 for the six months ended June 30, 2002 compared to operating earnings of $552,566 for the six months ended June 30, 2001. The decrease in 2002 operating earnings compared to 2001 operating earnings is due primarily to additional remediation expenses incurred on a construction project that significantly exceeded the original estimate.

Cost of contract revenues were $6,937,171 for the three months ended June 30, 2002 compared to $3,358,804 for the same period in 2001 representing gross profit (loss) margin of (4.6)% and 11.0%, respectively. Cost of contract revenues were $12,611,912 for the six months ended June 30, 2002 compared to $5,671,614 for the same period a year ago, representing gross profit (loss) margins of (6.9)% and 11.9%, respectively. Gross margin fluctuates each year based upon the profitability of specific projects.

General and administrative expenses were $1,271,042 for the three months ended June 30, 2002 compared to $993,831 for the same period a year ago. General and administrative expenses were $2,383,802 for the six months ended June 30, 2002 compared to $1,952,041 for the same period a year ago. The increase in general and administrative expense is primarily due to a one-time return of rental income to affiliates collected on their behalf.

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, 2002 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 24.1% and 18.8% for the three-month period ended June 30, 2002 and 2001, 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 50.0% and 70.3% for the three-month period ended June 30, 2002 and 2001, respectively. The decrease in the 2002 expense ratio results primarily from the decrease in commissions paid and one-time rental income recovered from an affiliate. The Company's insurance subsidiaries' combined ratios under GAAP were 74.1% and 89.1% for the three-month period ended June 30, 2002 and 2001, respectively.

The Company's insurance subsidiaries' loss ratios under generally accepted accounting principles ("GAAP") were 85.6% and 19.6% for the six-month periods ended June 30, 2002 and 2001, respectively. The increase in losses and loss adjustment expenses is attributable to 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 64.5% and 71.6% for the six-month period ended June 30, 2002 and 2001, respectively. The decrease in the 2002 expense ratio results primarily from the decrease in commissions paid. The Company's insurance subsidiaries' combined ratios under GAAP were 150.0% and 91.2% for the six-month period ended June 30, 2002 and 2001, 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. ACMAT has recently relied on dividends from its insurance subsidiaries to repay debt.

The Company generated cash flow from operations of $4,054,588 and $4,059,350 for the six-month period ended June 30, 2002 and 2001, respectively. Net cash flows from operations in 2002 and 2001 resulted primarily from life insurance proceeds and collateral, respectively. 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.

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Net cash used for investing activities in the first six-months of 2002 amounted to $2,359,730 compared to net cash provided by investing activities of $3,529,837 for the same period in 2001. 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 is in compliance with all covenants at June 30, 2002.

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, 2002.

During the six-month period ended June 30, 2002, the Company purchased, in the open market and privately negotiated transactions, 4,234 shares of its Common Stock at an average price of $19.00 per share. During the six-month period ended June 30, 2002, the Company also purchased, in the open market and privately negotiated transactions, 9,500 shares of its Class A Stock at an average price of $9.78 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 $5,930,000 in 2002.

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, 2002 was above the level which might require regulatory action.

CONTRACTUAL CASH OBLIGATIONS AND COMMITMENTS:

Contractual obligations at June 30, 2002 include the following:

Payment due by Period	Total	2002	2003/2004	2005/2006
Long-Term Debt (principal)	$22,559,982	$848,877	$3,780,440	$3,757,961

The Company also has cash collateral of $16,405,244 at June 30, 2002, which it would be required to return at the end of expiration of applicable bond period subject to any claims.

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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 20, 2002.

b. Directors elected at the meeting:

	Votes	Votes	Brokers

	For	Against	Non-Votes
Henry Nozko III	640,521	45,146	
Henry Nozko, Jr.	651,871	33,796	
Victoria Nozko	681,221	4,446	
John Creasy	681,241	4,426	
Arthur Moore	669,917	15,750	
Alfred T. Zlotopolski	681,241	4,426	

c. Other matters voted upon:

	For	Against	Abstain	Brokers Non-Votes
1. Appointment of Independent Auditors	681,937	4,430		

Item 5 - Other Information

Effective July 31, 2002, Alfred T. Zlotopolski, a director since 1999 has resigned as director of the Company. This coincides with his retirement from the Sheet Metal Workers' International Association.

Item 6 - Exhibits and Reports on Form 8-K

a. Exhibits:

99.1 Certification of Chief Executive Officer

99.2 Certification of Chief Financial Officer

b. Report on Form 8-K - None

SIGNATURES

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

ACMAT CORPORATION

Date: August 14, 2002

/S/ Henry W. Nozko, Jr.

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

Date: August 14, 2002

/S/ Michael P. Cifone

Michael P. Cifone, Senior Vice President,
Chief Financial Officer
(Principal Financial & Accounting Officer)