ACMAT CORP
Form 10-Q
May 15, 2003

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 March 31, 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 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 April 30, 2003
Common Stock	551,355
Class A Stock	1,750,104

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Part I Financial Information
Item I Financial Statements

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets

	March 31, 2003 (Unaudited)	December 3 2002
Assets		
Investments:		
Fixed maturities-available for sale at fair value (Cost of $52,186,856 in 2003 and $59,872,707 in 2002)	$ 52,840,361	60,919,2
Equity securities, at fair value (Cost of $8,935,000 in 2003 and $6,700,559 in 2002)	9,184,822	6,697,1
Short-term investments, at cost which approximates fair value	3,486,848	2,132,9
Total investments	65,512,031	69,749,4
Cash and cash equivalents	23,591,404	18,724,5
Accrued interest receivable	348,039	452,7
Receivables, net	2,286,474	2,580,0
Reinsurance recoverable	10,163,545	8,383,8
Prepaid expenses	191,829	161,7
Income tax receivable	217,479	308,4
Deferred income taxes	2,710,158	2,639,5
Property & equipment, net	11,565,907	11,723,1
Deferred policy acquisition costs	1,531,373	1,270,6
Other assets	4,395,471	4,050,2
Intangibles, net	1,920,360	1,920,3
	$124,434,070	121,964,7
Liabilities & Stockholders' Equity		
Accounts payable	$ 1,597,757	2,260,9
Reserves for losses and loss adjustment expenses	26,272,998	25,642,8

Unearned premiums	5,627,911	4,660,1
Collateral held	28,311,134	25,991,0
Accrued liabilities	787,429	1,044,0
Long-term debt	20,914,364	21,511,9
Total liabilities	83,511,593	81,111,0
Commitments and contingencies		
Stockholders' Equity:		
Common Stock (No par value; 3,500,000 shares authorized; 551,355 and 553,355 shares issued and outstanding)	551,355	553,3
Class A Stock (No par value; 10,000,000 shares authorized; 1,755,105 and 1,756,405 shares issued and outstanding)	1,755,105	1,756,4
Retained earnings	38,320,217	37,972,5
Accumulated other comprehensive income (loss)	295,800	571,3
Total stockholders' equity	40,922,477	40,853,7
	$124,434,070	121,964,7

See Notes to Consolidated Financial Statements.

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Earnings (Unaudited)
Three Months Ended March 31, 2003 and 2002

	2003	2002
Contract revenues	$ 724,293	5,167,531
Earned premiums	2,259,803	1,539,536
Investment income, net	634,319	884,513
Net realized capital gains	226,122	17,653
Life insurance proceeds, net	--	3,348,903
Other income	160,656	103,000
	4,005,193	11,061,136
Cost of contract revenues	638,385	5,674,741
Losses and loss adjustment expenses	786,124	2,581,543
Amortization of policy acquisition costs	427,350	432,563
General and administrative expenses	1,294,877	1,440,543
Interest expense	287,380	537,214
	3,434,116	10,666,604
Earnings before income taxes	571,077	394,532
Income taxes (benefits)	193,490	(342,777)

Net earnings	$ 377,587	737,309
	===========	===========
Basic Earnings Per Share	$ .16	$ .31
Diluted Earnings Per Share	$ .16	$ .30

See Notes to Consolidated Financial Statements.

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ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity (Unaudited)
March 31, 2003 and 2002

	Common stock par value	Class A stock par value	Retained earnings	Acc compr incom
Balance as of December 31, 2001	$ 557,589	1,827,019	35,460,226	
Comprehensive income:				
Net unrealized losses on debt and equity securities	--	--	--	(
Net earnings	--	--	737,309	
Total comprehensive income				
Acquisition and retirement of 4,234 shares of Common Stock	(4,234)	--	(76,255)	
Acquisition and retirement of 7,500 shares of Class A Stock	--	(7,500)	(63,750)	
Exercise of 7,500 shares of Class A Stock Pursuant to Stock options	--	7,500	46,875	
Balance as of March 31, 2002	$ 553,355	1,827,019	36,104,405	(
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 loss on derivatives qualifying as hedges	--	--	--	
Net earnings	--	--	377,587	
Total comprehensive income				
Acquisition and retirement of 2,000 shares of Common Stock	(2,000)	--	(18,650)	
Acquisition and retirement of 1,300 shares of Class A Stock	--	(1,300)	(11,310)	
Balance as of March 31, 2003	$ 551,355	1,755,105	38,320,217	

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See Notes to Consolidated Financial Statements.

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Unaudited)
Three Months Ended March 31, 2003 and 2002

	2003	2002
Cash flows from operating activities:		
Net earnings	$ 377,587	737,309
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	397,434	293,584
Net realized capital gains	(226,122)	(17,653)
Changes in:		
Accrued interest receivable	104,685	58,262
Reinsurance recoverable	(1,779,651)	344,482
Receivables, net	293,572	(1,915,861)
Deferred policy acquisition costs	(260,704)	28,274
Prepaid expenses and other assets	(375,378)	2,537,306
Accounts payable and accrued liabilities	(927,830)	1,243,230
Cash collateral held	2,320,089	1,755,650
Reserves for losses and loss adjustment expenses	630,133	92,188
Income taxes, net	158,243	(460,949)
Unearned premiums	967,717	(155,377)
Net cash provided by operating activities	1,679,775	4,540,445
Cash flows from investing activities:		
Proceeds from investments sold or matured:		
Fixed maturities-sold	6,652,707	2,571,465
Fixed maturities-matured	16,573,669	6,160,000
Equity securities	--	636,490
Short-term investments	5,066,635	3,920,669
Purchases of:		
Fixed maturities	(15,521,706)	(7,912,546)
Equity securities	(2,500,000)	(1,185,000)
Short-term investments	(6,420,517)	(3,863,471)
Capital expenditures	(32,902)	(71,817)
Net cash provided by investing activities	3,817,886	255,790
Cash flows from financing activities:		
Repayments on long-term debt	(597,557)	(418,870)
Issuance of Class A Stock	--	54,375
Payments for acquisition & retirement of stock	(33,260)	(151,540)
Net cash used for financing activities	(630,817)	(516,035)
Net change in cash and cash equivalents	4,866,844	4,280,200

Cash and cash equivalents at beginning of period	18,724,560	12,784,806
Cash and cash equivalents at end of period	$ 23,591,404	17,065,006

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, 2002.

(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 March 31, 2003 and 2002.

2003:	Earnings	Average Shares Outstanding	Per-Share Amount
Basic EPS:			
Earnings available to stockholders	$ 377,587	2,308,137	$ .16
Effect of Dilutive Securities:			
Stock options	--	18,797	xxx
Diluted EPS:			
Earnings available to stockholders	$ 377,587	2,326,934	$ .16
2002:			
Basic EPS:			
Earnings available to stockholders	$ 737,309	2,382,043	$ .31

Effect of Dilutive Securities:			
Stock options	--	54,343	xxx
Diluted EPS:			
Earnings available to stockholders	$ 737,309	2,436,386	$ .30

(3) Supplemental Cash Flow Information

Income tax paid during the three months ended March 31, 2003 and 2002 was $35,247 and $117,985, respectively. Interest paid for the three months ended March 31, 2003 and 2002 was $289,132 and $282,344, respectively.

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(4) Comprehensive Income

The following table summarizes reclassification adjustments for other comprehensive income (loss) and the related tax effects for the three months ended March 31, 2003 and 2002:

	2003	2002
Unrealized gains (losses) on investments:		
Unrealized holding gain (loss) arising during period, net of income tax	$(416,815)	(381,410)
Less reclassification adjustment for gains included in net income, net of income tax expense of $76,881 and $6,001 for 2003 and 2002, respectively	149,241	11,651
Other comprehensive income (loss)	$(267,574)	(369,759)

(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 quarter ended March 31, 2003 and 2002 is as follows:

	2003	2002
Net earnings as reported	$ 377,587	737,309
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	(32,067)	--
Net earnings, pro forma	$ 345,520	737,309
Earnings per share		
Basic and diluted - as reported	$.16/$.16	.31/.30
Basic and diluted - pro forma	$.15/$.15	.31/.30

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.

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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.

(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 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.

(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.

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 to 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, asbestos, lead, pollution and professional liability insurance nationwide to specialty trade contractors, environmental contractors, property owner, storage and treatment facilities and professionals. United Coastal also offers products liability insurance to manufacturers and distributors.

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

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-month periods ended March 31, 2003 and 2002 is summarized as follows:

	2003	2002
Revenues:		
ACSTAR Bonding	$ 1,747,851	1,132,867
United Coastal Liability Insurance	1,399,415	1,238,216
ACMAT Contracting	1,412,151	5,871,677
	$ 4,559,417	8,242,760
Operating Earnings (Loss):		
ACSTAR Bonding	$ 671,718	(238,180)
United Coastal Liability Insurance	435,049	(1,263,153)
ACMAT Contracting	(248,310)	(915,824)
	$ 858,457	(2,417,157)
Depreciation and Amortization:		
ACSTAR Bonding	130,025	99,141
United Coastal Liability Insurance	145,611	49,703
ACMAT Contracting	121,798	144,740
	397,434	293,584

Identifiable Assets:	March 31, 2003	December 31, 2002
ACSTAR Bonding	$ 58,762,113	56,407,938
United Coastal Liability Insurance	48,099,257	46,443,389
ACMAT Contracting	17,572,700	19,113,436
	$124,434,070	121,964,763

The components of revenue for each segment for the three-month periods ended March 31, 2003 and 2002 are as follows:

	2003	2002
ACSTAR Bonding:		
Premiums	$1,177,974	803,178
Investment income, net	323,486	330,380
Capital gains (losses)	180,145	(237)
Other	66,246	(454)
	$1,747,851	1,132,867

United Coastal Liability Insurance:		
Premiums	$1,081,829	736,358
Investment income, net	265,915	481,360
Capital gains	45,977	17,890
Other	5,694	2,608
	$1,399,415	1,238,216
ACMAT Contracting:		
Contract revenues	$ 724,293	5,167,531
Investment income, net	5,414	42,773
Intersegment revenue:		
Rental income	178,702	369,979
Underwriting services and agency commissions	415,026	191,731
Other	88,716	99,663
	$1,412,151	5,871,677

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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:

	2003	2002
Revenue:		
Total revenue for reportable segments	$ 4,559,417	8,242,760
Life insurance proceeds, net	--	3,348,903
Intersegment eliminations	(554,224)	(530,527)
	$ 4,005,193	11,061,136

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.

	2003	2002
Operating Earnings:		
Total operating earnings (loss) for reportable segments	$ 858,457	(2,417,157)
Interest expense	(287,380)	(537,214)
Life insurance proceeds, net	--	3,348,903
	$ 571,077	394,532

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.

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

CONSOLIDATED RESULTS OF OPERATIONS:

Net earnings were $377,587 for the three months ended March 31, 2003 compared to $737,309 for the same period a year ago. Net earnings in 2003 also reflects an increase in earned premiums offset in part by a decrease in losses and loss adjustment expenses. The decrease in net earnings is largely due to the absence of a one-time benefit from life insurance proceeds received in 2002. The net earnings in 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. Net earnings in 2002 were also negatively impacted by an increase to loss reserves due to adverse development in prior years and additional remediation expenses incurred on a construction project that significantly exceeded the original estimate.

Revenues were $4,005,193 for the three months ended March 31, 2003 compared to $11,061,136 for the same period in 2002. The 2002 revenues reflects the net affect of life insurance proceeds and related obligations due to the death of the Chairman and President of the Company and increased construction revenues. Earned premiums were $2,259,803 for the three months ended March 31, 2003 compared to $1,539,536 for the same period a year ago. Contract revenues were $724,293 for the three months ended March 31, 2003 compared to $5,167,531 for the same period a year ago. Contract revenue is difficult to predict and depends greatly on the successful securement of contracts bid.

Investment income was $634,319 for the three months ended March 31, 2003 compared to $884,513 for the same period in 2002. The decrease in investment income was primarily related to a slight decrease in invested assets and a decrease in the effective yield on those invested assets. Net realized capital gains were $226,122 for the three months ended March 31, 2003 compared to $17,653 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 $160,656 for the three months ended March 31, 2003 compared to $103,000 for the same period in 2002. Other income is primarily comprised of rental income.

Losses and loss adjustment expenses were $786,124 for the three months ended March 31, 2003 compared to $2,581,543 for the same period a year ago. During the three-month period ended March 31, 2002, the Company increased reserves by a net amount of $2,200,000. Amortization of policy acquisition costs were $427,350 for the three months ended March 31, 2003 compared to $432,563 for the same period in 2002.

Costs of contract revenues were $638,385 for the three months ended March 31, 2003 compared to $5,674,741 for the same period a year ago. The gross profit margin on construction projects was 12% in 2003 compared to a gross loss margin of (10%) in 2002. The Company incurred additional remediation expenses involving a construction project in 2002 that significantly exceeded the original estimate. Gross margin fluctuations each year based upon the profitability of specific projects.

General and administrative expenses were $1,294,877 for the three months ended March 31, 2002 compared to $1,440,543 for the same period a year ago. The decrease in general and administrative expenses reflects a decrease in depreciation expense and a one-time investment write-off in 2002.

Interest expense was $287,380 for the three months ended March 31, 2003 compared to $537,214 for the same period in 2002. The decrease in interest expense is due to the decrease in long-term debt and the replacement of high interest-bearing debt with lower interest bearing debt during the fourth quarter of 2002.

Income tax expense was $193,490 for the three months ended March 31, 2003 compared to income tax benefit $342,777 for the same period a year ago representing effective tax rates of 33.4% and (87%), 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.

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Results of Operations by Segment:

ACSTAR BONDING:

	2003	2002
Revenue	$1,747,851	1,132,867
Operating Earnings (Loss)	$ 671,718	(238,180)

Revenues for the ACSTAR Bonding segment were $1,747,851 for the three months ended March 31, 2003 compared to $1,132,867 for the same period in 2002. Net written premiums were $1,252,689 for the three months ended March 31, 2003 compared to $667,132 for the three months ended March 31, 2002. Earned premiums were $1,177,974 for the three months ended March 31, 2003 compared to $803,178 for the three months ended March 31, 2002.

The increase in net written premiums and earned premiums for the three months ended March 31, 2003 as compared to the three months ended March 31, 2002, reflect the impact of the favorable insurance market. ACSTAR has experienced a significant increase in business opportunities over the past twelve months that meet ACSTAR's underwriting standards.

Investment income was $323,486 for the three months ended March 31, 2003 compared to $330,380 for the same period a year ago. The 2003 investment income reflects an increase in invested assets offset by a decrease in the effective yield on those invested assets. Net realized capital gains were $180,145 for the three months ended March 31, 2003 compared to net realized capital losses of $237 for the same period a year ago.

ACSTAR Bonding segment had operating earnings of $671,718 for the three months ended March 31, 2003 compared to operating losses of ($238,180) for the same period in 2002. The 2003 operating earnings reflect the increase in earned premiums and the decrease in losses and loss adjustment expenses. The operating loss in 2002 is due primarily to the addition of $500,000, net of recoveries, to loss reserves for adverse development in prior years.

Losses and loss adjustment expenses were $353,392 for the three months ended March 31, 2003 compared to $660,636 for the same period a year ago. The 2002 losses and loss adjustment expenses reflect increases attributable to the strengthening of loss reserves due to adverse development in prior years and also reflects the emergence of adverse loss trends in 2002. During the three-month period ended March 31, 2002, the Company increased ACSTAR reserves by a net amount of $500,000. Amortization of policy acquisition costs was $432,168 for the three months ended March 31, 2003 compared to $338,028 for the same period in 2002. The increase in amortization of policy acquisition costs reflects the increase in earned premiums in 2003.

General and administrative expenses were $290,573 for the three months ended March 31, 2003 compared to $372,383 for the same period a year ago. The decrease in general and administrative expenses is due primarily to a decrease in rental expense charged by ACMAT effective January 1, 2003.

UNITED COASTAL LIABILITY INSURANCE:

	2003	2002
Revenue	$1,399,415	1,238,216
Operating Earnings (Loss)	$ 435,049	(1,263,153)

Revenues for the United Coastal Liability Insurance segment were $1,399,415 for the three months ended March 31, 2003 compared to $1,238,216 for the same period in 2002. Net written premiums were $2,036,492 for the three months ended March 31, 2003 compared to $804,755 for the three months ended March 31, 2002. The increase in 2003 net written premiums compared to 2002 reflects the impact of the favorable insurance rate market. United Coastal has experienced a significant increase in business opportunities over the past twelve months that meet United Coastal's underwriting standards. Earned premiums were $1,081,829 for the three months ended March 31, 2003 compared to $736,358 for the three months ended March 31, 2002. The increase in 2003 earned premiums reflect the increase in net written premiums in 2003.

Investment income was $265,915 for the three months ended March 31, 2003 compared to $481,360 for the same period a year ago. 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 as well as a significant amount of early principal paydowns on mortgage-backed securities due to the interest rate environment. The effective yield on the invested assets has also decreased. Net realized capital gains were $45,977 for the three months ended March 31, 2003 as compared to realized capital gains of $17,890 for the same period a year ago.

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United Coastal Liability Insurance segment incurred an operating earnings of $435,049 for the three months ended March 31, 2003 as compared to operating losses of ($1,263,153) for the same period in 2002. The 2003 operating earnings reflect the increase in earned premiums and the decrease in losses and loss adjustment expenses. The operating loss in 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 $432,732 for the three months ended March 31, 2003 compared to $1,920,907 for the same period a year ago. The 2002 losses and loss adjustment expenses reflect increases 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 $293,713 for the three months ended March 31, 2003 as compared to $219,879 for the same period in 2002. The increase in amortization of policy acquisition costs is primarily attributable to the increase in earned premiums.

General and administrative expenses were $237,921 for the three months ended March 31, 2003 compared to $360,583 for the same period a year ago. The decrease in general and administrative expenses is due primarily to the absence of expenses related to the statutory audit by The Arizona Insurance Department conducted in 2002 and a decrease in 2003 rental expense charged by ACMAT effective January 1, 2003.

ACMAT CONTRACTING:

	2003	2002
Revenue	$1,412,151	5,871,677
Operating Earnings (Loss)	($248,310)	(915,824)

Revenues for the ACMAT Contracting segment were $1,412,151 for the three months ended March 31, 2003 compared to $5,871,677 for the same period in 2002. The 2003 decrease in revenue reflects a decrease in contract revenues compared to 2002 due to the completion of most of the backlog during 2002.

Operating losses for the ACMAT Contracting segment were $248,310 for the three months ended March 31, 2003 compared to operating losses of $915,824 for the same period a year ago. The operating losses in 2003 is due primarily to the 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 is substantially complete with its current projects and its current backlog relates to primarily one profitable project. The backlog at March 31, 2003 was $400,000 compared to $9,600,000 at March 31, 2002. The significant decrease in backlog reflects the significant number of contractors competing for a limited number of projects available in our market place.

Cost of contract revenues were $638,385 for the three months ended March 31, 2003 compared to $5,674,741 for the same period in 2001. The gross profit margin on construction projects was 12% in 2003 compared to gross loss margin of 10% in 2002. Gross margin fluctuations each year based upon the profitability of specific projects.

General and administrative expenses were $1,022,076 for the three months ended March 31, 2003 compared to $1,112,760 for the same period a year ago. The decrease in general and administrative expenses for the three month period ended March 31, 2003 compared to the same period a year ago is due to a decrease in depreciation and a one-time investment write-off 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 March 31, 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 34.8% and 167.7% for the three-month periods ended March 31, 2003 and 2002, respectively. The 2002 losses and loss adjustment expenses increases are 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 55.5% and 83.8% for the three-month period ended March 31, 2003 and 2002, respectively. The decrease in the 2003 expense ratio results primarily from the increase in earned premiums and lower rental expense. The Company's insurance subsidiaries' combined ratios under GAAP were 90.3% and 251.5% for the three-month period ended March 31, 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 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, 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 relied on dividends from its insurance subsidiaries to repay debt.

The Company provided cash flow from operations of $1,679,775 for the three-month period ended March 31, 2003 compared to $4,540,445 for the same period in 2002. The cash flow from operations is due primarily to the increase in cash collateral. Net cash flows provided from operations in 2002 were provided from net life insurance proceeds and cash collateral. Substantially all of the Company's cash flow was used to repay long-term debt, repurchase stock and purchase investments. 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 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 quarter of 2003 amounted to $3,817,886 compared to $255,790 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 debt 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. The Company is in compliance with all covenants at March 31, 2003.

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 March 31, 2003.

During the three-month period ended March 31, 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. In addition, the Company purchased, in the open market and privately negotiated transactions, 1,300 shares of its Class A Stock at an average price of $9.70 per share during the three-month period ended March 31, 2003.

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.

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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 March 31, 2003 was above the level which might require regulatory action.

CONTRACTUAL CASH OBLIGATIONS AND COMMITMENTS:

Contractual obligations at March 31, 2003 include the following:

Payment due by Period	Total	2003	2004/2005	2006/2007	After 2006
Long-Term Debt (principal)	$20,914,364	$1,807,831	$5,223,604	$5,217,451	$8,665,478

The Company also has cash collateral of $28,311,134 at March 31, 2003, which it would be required to return at the end of expiration of applicable bond period subject to any claims.

Part II - Other Information

Item 4 - Controls and Procedures

The Company maintains a system of internal controls and procedures designed to provide reasonable assurance as to the reliability of our published financial statements and other disclosures included in this report. Within the 90-day period prior to the date of this report, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-14 of the Securities Exchange Act of 1934. Based upon that evaluation, our Chief Executive Officer and our Principal Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to ACMAT Corporation (including its consolidated subsidiaries) required to be included in this quarterly report on Form 10-Q.

There have been no significant changes in our internal controls or in other factors which could significantly affect internal controls subsequent to the date that we carried out our evaluation.

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: May 15, 2003

/s/ Henry W. Nozko, Jr.

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

Date: May 15, 2003

/s/ Michael P. Cifone

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

CERTIFICATION

I, Henry W. Nozko, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of ACMAT Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. ACMAT's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures as defined in Exchange Act Rules 13a-14 and 15d-14) for ACMAT and we have:

    a) designed such disclosure controls and procedures to ensure that material information relating to ACMAT, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

    b) evaluated the effectiveness of ACMAT's disclosure controls and procedures as of a date within 90 days prior to filing date of this quarterly report (the "Evaluation Date"); and

    c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the board of directors;

    a) all significant deficiencies in the design or operation of internal controls which could adversely affect ACMAT's ability to record, process, summarize and report financial data and have identified for ACMAT's auditors any material weaknesses in internal controls; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. ACMAT's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 15, 2003

/s/ Henry W. Nozko, Jr.

Chief Executive Officer

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CERTIFICATION

I, Michael P. Cifone., certify that:

1. I have reviewed this quarterly report on Form 10-Q of ACMAT Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. ACMAT's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures as defined in Exchange Act Rules 13a-14 and 15d-14) for ACMAT and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to ACMAT, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of ACMAT's disclosure controls and procedures as of a date within 90 days prior to filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the board of directors;

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect ACMAT's ability to record, process, summarize and report financial data and have identified for ACMAT's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. ACMAT's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 15, 2003

/s/ Michael P. Cifone

Chief Financial Officer