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ACMAT CORP
Form 10-Q
August 14, 2003

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

QUARTERLY REPORT PURSUANT TO SECTION 13 OF THE SECURITIES EXCHANGE
ACT OF 1934

For the quarterly period ended June 30, 2003

OR

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

For the transition period from to

Commission file number 0-6234

ACMAT CORPORATION

Connecticut 06-0682460

(State of Incorporation) (I.R.S. Employer Identification No.)

233 Main Street, New Britain, Connecticut 06050-2350

(Address of principal executive offices)

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

NONE

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

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

Yes No

Indicate by check mark whether the registrant is an accelerated filed (as
defined in Rule 12b-2 of the Exchange Act). Yes 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, 2003 ----- |
|-------------------------|---|
| Common Stock | 551,355 |
| Class A Stock | 1,745,104 |

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Part I Financial Information
Item I Financial Statements

ACMAT CORPORATION AND SUBSIDIARIES Consolidated Balance Sheets

| Assets | June 30, 2003 | Dece |
|--|------------------|-------|
| ----- | | ----- |
| (Unaudited) | | |
| Investments: | | |
| Fixed maturities—available for sale at fair value (Amortized Cost of \$58,231,774 in 2003 and \$59,872,707 in 2002) | \$ 59,009,975 | 60, |
| Equity securities, at fair value (Cost of \$7,665,262 in 2003 and \$6,700,559 in 2002) | 8,085,914 | 6, |
| Short-term investments, at cost which approximates fair value | 20,358,346 | 2, |
| | | ----- |
| Total investments | 87,454,235 | 69, |
| Cash and cash equivalents | 9,888,071 | 18, |
| Accrued interest receivable | 367,243 | |
| Receivables, net | 2,856,603 | 2, |
| Reinsurance recoverable | 9,903,050 | 8, |
| Prepaid expenses | 229,480 | |
| Income tax receivable | 141,563 | |
| Deferred income taxes | 2,523,419 | 2, |
| Property & equipment, net | 11,444,473 | 11, |
| Deferred policy acquisition costs | 1,720,197 | 1, |
| Other assets | 3,431,510 | 4, |
| Intangibles | 1,920,360 | 1, |
| | | ----- |

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| | | |
|---|---------------|-------|
| | 131,880,204 | 121, |
| | ===== | ===== |
| Liabilities & Stockholders' Equity | | |
| ----- | | |
| Accounts payable | 1,056,170 | 2, |
| Reserves for losses and loss adjustment expenses | 25,904,916 | 25, |
| Unearned premiums | 6,563,491 | 4, |
| Collateral held | 35,250,814 | 25, |
| Other accrued liabilities | 1,213,528 | 1, |
| Long-term debt | 20,314,632 | 21, |
| | ----- | ----- |
| Total liabilities | 90,303,551 | 81, |
| Commitments and contingencies | | |
| Stockholders' Equity: | | |
| Common Stock (No par value; 551,355 shares authorized; and 553,355 shares issued and outstanding) | 551,355 | |
| Class A Stock (No par value; 1,745,105 shares authorized; and 1,756,405 shares issued and outstanding) | 1,745,105 | 1, |
| Retained earnings | 38,753,907 | 37, |
| Accumulated other comprehensive income | 526,286 | |
| | ----- | ----- |
| Total Stockholders' Equity | 41,576,653 | 40, |
| | ----- | ----- |
| | \$131,880,204 | 121, |
| | ===== | ===== |

See Notes to Consolidated Financial Statements.

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Earnings (Unaudited)

| | Three months ended June 30 | | Six months ended June 30 | |
|--|-------------------------------|-----------|-----------------------------|------------|
| | 2003 | 2002 | 2003 | 2002 |
| | ----- | ----- | ----- | ----- |
| Contract revenues | \$ 286,820 | 6,634,068 | 1,011,113 | 11,800,000 |
| Earned premiums | 3,118,193 | 2,058,341 | 5,377,996 | 3,590,000 |
| Investment income, net | 620,919 | 913,114 | 1,255,238 | 1,790,000 |
| Net realized capital gains (losses) | 22,649 | (691) | 248,771 | 1,000,000 |
| Life insurance proceeds, net | -- | -- | -- | 3,340,000 |
| Other income | 303,597 | 265,357 | 464,253 | 360,000 |
| | ----- | ----- | ----- | ----- |
| | 4,352,178 | 9,870,189 | 8,357,371 | 20,930,000 |
| | ----- | ----- | ----- | ----- |
| Cost of contract revenues | 305,244 | 6,937,171 | 943,629 | 12,610,000 |
| Losses and loss adjustment expenses | 1,077,195 | 496,680 | 1,863,319 | 3,070,000 |
| Amortization of policy acquisition costs | 597,346 | 416,256 | 1,024,696 | 840,000 |
| General and administrative expenses | 1,322,413 | 1,254,136 | 2,617,290 | 2,690,000 |
| Interest expense | 267,049 | 505,868 | 554,429 | 1,040,000 |
| | ----- | ----- | ----- | ----- |

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| | | | | |
|---|------------|-----------|-----------|-------|
| | 3,569,247 | 9,610,111 | 7,003,363 | 20,27 |
| | ----- | ----- | ----- | ----- |
| Earnings before income taxes (benefits) | 782,931 | 260,078 | 1,354,008 | 65 |
| Income taxes (benefits) | 278,341 | (546,085) | 471,831 | (88 |
| | ----- | ----- | ----- | ----- |
| Net earnings | \$ 504,590 | 806,163 | 882,177 | 1,54 |
| | ===== | ===== | ===== | ===== |
| Basic earnings per share | \$.22 | .34 | .38 | |
| Diluted earnings per share | \$.22 | .33 | .38 | |

See Notes to Consolidated Financial Statements.

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

| | Common Stock Par Value | Class A Stock Par Value | Retained Earnings | Accumulated Other Comprehensiv Income |
|--|------------------------------|-------------------------------|----------------------|--|
| | ----- | ----- | ----- | ----- |
| Balance as of December 31, 2001 | \$ 557,589 | 1,827,019 | 35,460,226 | 127,341 |
| Comprehensive income: | | | | |
| Net unrealized gains on debt and equity securities | -- | -- | -- | 313,534 |
| 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 | 440,875 |
| | ===== | ===== | ===== | ===== |
| Balance as of December 31, 2002 | \$ 553,355 | 1,756,405 | 37,972,590 | 571,358 |
| Comprehensive income: | | | | |

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| | | | | |
|--|------------|-----------|------------|----------|
| Net unrealized gains on debt and equity securities | -- | -- | -- | 45,059 |
| Net unrealized losses on derivatives qualifying as hedges | -- | -- | -- | (90,131) |
| Net earnings | -- | -- | 882,177 | -- |
| Total comprehensive income | | | | |
| Acquisition and retirement of 2,000 shares of Common Stock | (2,000) | -- | (18,650) | -- |
| Acquisition and retirement of 11,300 shares of Class A Stock | -- | (11,300) | (82,210) | -- |
| | ----- | ----- | ----- | ----- |
| Balance as of June 30, 2003 | \$ 551,355 | 1,745,105 | 38,753,907 | 526,286 |
| | ===== | ===== | ===== | ===== |

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, 2003 and 2002

| | 2003 |
|--|-------------|
| | ----- |
| Cash flows from operating activities: | |
| Net earnings | \$ 882,177 |
| Adjustments to reconcile net earnings to net cash used for operating activities: | |
| Depreciation and amortization | 766,226 |
| Net realized capital (gains) losses | (248,771) |
| Changes in: | |
| Accrued interest receivable | 85,481 |
| Reinsurance recoverable | (1,519,156) |
| Receivables, net | (276,557) |
| Deferred policy acquisition costs | (449,528) |
| Prepaid expenses and other assets | 550,932 |
| Accounts payable and other accrued liabilities | (1,133,449) |
| Reserves for losses and loss adjustment expenses | 262,051 |
| Collateral held | 9,259,769 |
| Income taxes, net | 255,731 |
| Unearned premiums | 1,903,297 |
| | ----- |
| Net cash provided by operating activities | 10,338,203 |
| | ----- |
| Cash flows from investing activities: | |
| Proceeds from investments sold or matured: | |
| Fixed maturities-sold | 6,652,707 |
| Fixed maturities-matured | 20,481,634 |
| Equity securities | 2,082,649 |
| Short term investments | 7,457,791 |

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| | | | | |
|---------------------------------------|--|--|--|--------------|
| Purchases of: | | | | |
| | Fixed maturities | | | (25,656,946) |
| | Equity securities | | | (3,100,000) |
| | Short-term investments | | | (25,683,172) |
| | Capital expenditures | | | (97,906) |
| | | | | ----- |
| | Net cash used for investing activities | | | (17,863,243) |
| | | | | ----- |
| Cash flows from financing activities: | | | | |
| | Repayments on long-term debt | | | (1,197,289) |
| | Issuance of Class A Stock | | | -- |
| | Payments for acquisition & retirement of stock | | | (114,160) |
| | | | | ----- |
| | Net cash used for financing activities | | | (1,311,449) |
| | | | | ----- |
| Net change in cash | | | | (8,836,489) |
| Cash at beginning of period | | | | 18,724,560 |
| | | | | ----- |
| Cash at end of period | | | | \$ 9,888,071 |
| | | | | ===== |

See Notes to Consolidated Financial Statements.

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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 EPS computations for the three-month periods ended June 30, 2003 and 2002:

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| 2003: ----- | Earnings ----- | Weighted Average Shares Outstanding ----- | Per-Share Amount ----- |
|------------------------------------|-------------------|---|------------------------------|
| Basic EPS: | | | |
| Earnings available to stockholders | \$504,590 | 2,301,734 | \$.22 |
| Effect of Dilutive Securities: | | | |
| Stock options | ----- -- | ----- 15,591 | |
| Diluted EPS: | | | |
| Earnings available to stockholders | ===== | ===== | ===== |
| 2002: ----- | | | |
| 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 | ===== | ===== | ===== |

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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, 2003 and 2002:

| 2003: ----- | Earnings ----- | Weighted Average Shares Outstanding ----- | Per-Share Amount ----- |
|------------------------------------|-------------------|---|------------------------------|
| Basic EPS: | | | |
| Earnings available to stockholders | \$ 882,177 | 2,304,918 | \$.38 |
| Effect of Dilutive Securities: | | | |
| Stock options | ----- -- | ----- 17,832 | |
| Diluted EPS: | | | |
| Earnings available to stockholders | ===== | ===== | ===== |
| 2002: Basic EPS: | | | |
| Earnings available to stockholders | \$1,543,472 | 2,380,529 | \$.65 |

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| | | | |
|------------------------------------|-------------|-----------|-------|
| Effect of Dilutive Securities: | | | |
| Stock options | -- | 62,783 | |
| | ----- | ----- | |
| Diluted EPS: | | | |
| Earnings available to stockholders | \$1,543,472 | 2,443,312 | \$.63 |
| | ===== | ===== | ===== |

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

(3) Supplemental Cash Flow Information

Income taxes paid during the six months ended June 30, 2003 and 2002 was \$216,100 and \$538,302, respectively. Interest paid for the six months ended June 30, 2003 and 2002 was \$559,451 and \$1,098,178, respectively.

(4) Comprehensive Income

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

| | |
|--|-----------|
| | 2003 |
| | ----- |
| Unrealized gains on investments: | |
| Unrealized holding gain arising during period | \$209,248 |
| Less reclassification adjustment for gains included in net income, net of income tax expense of \$84,582 and \$5,767 for 2003 and 2002, respectively | 164,189 |
| | ----- |
| Other comprehensive income | \$ 45,059 |
| | ===== |

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(5) Stock-Based Compensation

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

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

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

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

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| | Three Months Ended | | Six M |
|---|--------------------|---------|----------|
| | 2003 | 2002 | 2003 |
| Net earnings as reported | \$ 504,590 | 806,163 | 882,177 |
| 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) | -- | (64,134) |
| Net earnings, pro forma | \$ 472,523 | 806,163 | 818,043 |
| Earnings per share | | | |
| Basic and diluted - as reported | \$.22/\$.22 | .34/.33 | .38/.38 |
| Basic and diluted - pro forma | \$.21/\$.20 | .34/.33 | .35/.35 |

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

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

No options were granted in 2003.

(6) New Accounting Standards

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" (FAS 143). FAS 143 changes the measurement of an asset retirement obligation from a cost-accumulation approach to a fair value approach, where the fair value (discounted value) of an asset retirement obligation is recognized as a liability in the period in which it is incurred and accretion expense is recognized using the credit-adjusted risk-free interest rate in effect when the liability was initially recognized. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and subsequently amortized into expense. The pre-FAS 143 prescribed practice of reporting a retirement obligation as a contra-asset will no longer be allowed. The Company is not impacted by this new standard which took effect on January 1, 2003.

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

(8) Life Insurance Proceeds, net

On January 13, 2002, the Founder, Chairman, President and Chief Executive Officer of the Corporation died at the age of 82. 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.

(9) Segment Reporting

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

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

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

3. ACCOUNTING STANDARDS NOT YET ADOPTED

CONSOLIDATION OF VARIABLE INTEREST ENTITIES

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

The Company holds mortgage-backed and asset-backed securities which are considered variable interest entities. For purposes of applying FIN 46, the Company is evaluating investments which were acquired or created prior to February 1, 2003 to determine whether such investments should be consolidated or disclosed as variable interest entities in the Company's future financial statements.

The Company continues to assess the impact, if any, that the consolidation and disclosure provisions of FIN 46 may have on the consolidated financial statements.

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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, 2003 and 2002 is summarized as follows:

| | Three Months ended | | Six Months ended | |
|------------------------------------|--------------------|------------|------------------|-------------|
| | 2003 | 2002 | 2003 | 2002 |
| Revenues: | | | | |
| ACSTAR Bonding | \$ 1,800,826 | 1,545,516 | 3,548,677 | 2,678,000 |
| United Coastal Liability Insurance | 1,754,968 | 1,338,764 | 3,154,383 | 2,576,000 |
| ACMAT Contracting | 1,497,810 | 7,615,271 | 2,909,961 | 13,486,000 |
| | \$ 5,053,604 | 10,499,551 | 9,613,021 | 18,742,000 |
| Operating Earnings (Loss): | | | | |
| ACSTAR Bonding | \$ 402,102 | 599,538 | 1,073,820 | 361,000 |
| United Coastal Liability Insurance | 457,252 | 759,350 | 892,301 | (503,000) |
| ACMAT Contracting | 190,626 | (592,942) | (57,684) | (1,508,000) |

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| | | | | |
|------------------------------------|--------------------------------|---------------------------|-----------------------------|---------------------------|
| | ----- \$ 1,049,980 ===== | ----- 765,946 ===== | ----- 1,908,437 ===== | ----- (1,651) ===== |
| Depreciation and Amortization: | | | | |
| ACSTAR Bonding | \$ 189,095 | 99,280 | 319,120 | 198 |
| United Coastal Liability Insurance | 57,693 | 50,712 | 203,304 | 100 |
| ACMAT Contracting | 122,004 | 88,623 | 243,802 | 233 |
| | ----- \$ 368,792 ===== | ----- 238,615 ===== | ----- 766,226 ===== | ----- 532 ===== |

| | | |
|------------------------------------|---------------------------------|-------------------------------|
| Identifiable Assets: | June 30, 2003 ----- | December 31, 2002 ----- |
| ACSTAR Bonding | \$ 66,766,823 | 56,407,938 |
| United Coastal Liability Insurance | 48,751,036 | 46,443,389 |
| ACMAT Contracting | 16,362,345 | 19,113,436 |
| | ----- \$131,880,204 ===== | ----- 121,964,763 ===== |

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

| | Three Months ended | | Six Months ended | |
|---|--------------------------------|-----------------------------|-----------------------------|-------------------------|
| | 2003 | 2002 | 2003 | 2002 |
| | ----- | ----- | ----- | ----- |
| ACSTAR Bonding: | | | | |
| Premiums | \$ 1,700,822 | 1,208,216 | 2,878,796 | 2,011 |
| Investment income, net | 248,840 | 338,004 | 572,326 | 668 |
| Capital gains | 22,649 | -- | 202,794 | |
| Other | (171,485) | (704) | (105,239) | (1 |
| | ----- \$ 1,800,826 ===== | ----- 1,545,516 ===== | ----- 3,548,677 ===== | ----- 2,678 ===== |
| United Coastal Liability Insurance: | | | | |
| Premiums | \$ 1,417,371 | 850,125 | 2,499,200 | 1,586 |
| Investment income, net | 326,008 | 484,704 | 591,923 | 966 |
| Capital gains/(losses) | -- | (691) | 45,977 | 17 |
| Other | 11,589 | 4,626 | 17,283 | 7 |
| | ----- \$ 1,754,968 ===== | ----- 1,338,764 ===== | ----- 3,154,383 ===== | ----- 2,576 ===== |
| ACMAT Contracting: | | | | |
| Contract revenues | \$ 286,820 | 6,634,068 | 1,011,113 | 11,801 |
| Investment income, net | 1,818 | 40,892 | 7,232 | 83 |
| Intersegment revenue: | | | | |
| Rental income | 232,040 | 305,340 | 410,742 | 675 |
| Underwriting services, agency commissions and funds administration services | 513,639 | 372,353 | 928,665 | 56 |
| Other | 463,493 | 262,618 | 552,209 | 36 |
| | ----- | ----- | ----- | ----- |

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| | | | |
|--------------|-----------|-----------|-------|
| \$ 1,497,810 | 7,615,271 | 2,909,961 | 13,48 |
| ===== | ===== | ===== | ===== |

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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 | | Six Mon |
|---------------------------------------|--------------------|------------|-----------|
| | 2003 | 2002 | 2003 |
| Total revenue for reportable segments | \$ 5,053,604 | 10,499,551 | 9,613,021 |
| Life insurance proceeds, net | -- | -- | -- |
| Intersegment eliminations | 701,426 | (629,362) | 1,255,650 |
| | ----- | ----- | ----- |
| | \$ 4,352,178 | 9,870,189 | 8,357,371 |
| | ===== | ===== | ===== |

The adjustments and eliminations required to arrive at consolidated amounts shown above consist principally of the elimination of the intersegment revenues related to the performance of certain services and rental charges. Identifiable assets are those assets that are used by each segment's operations. Foreign revenues are not significant.

Operating Earnings:

| | | | |
|--|--------------|-----------|-----------|
| Total operating earnings for reportable segments | \$ 1,049,980 | 765,946 | 1,908,437 |
| Interest expense | (267,049) | (505,868) | (554,429) |
| Life insurance proceeds, net | -- | -- | -- |
| | ----- | ----- | ----- |
| | \$ 782,931 | 260,078 | 1,354,008 |
| | ===== | ===== | ===== |

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.

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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 \$504,590 for the three months ended June 30, 2003 compared to \$806,163 for the same period a year ago. The decrease in net earnings for the three months ended June 30, 2003 compared to the same period a year ago

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reflects the absence of a tax benefit in 2003 offset by an increase in earned premium in 2003. Net earnings for the six months ended June 30, 2003 were \$882,177 compared to \$1,543,472 for the six months ended June 30, 2002. The decrease in net earnings for the six months ended June 30, 2003 compared to 2002 is largely due to the absence of a one-time benefit from life insurance proceeds received in 2002 offset in part by an increase in earned premium and a decrease in loss and loss adjustment expense. The net earnings for the six months ended June 30, 2002 reflects the net effect of life insurance proceeds, net of the related obligations, due to the death of the Chairman and President of the Company and the related tax benefits offset by an increase to loss reserves due to adverse development in prior years and additional remediation expenses incurred on a construction project significantly exceeded the original estimate.

Revenues were \$4,352,178 for the three months ended June 30, 2003 compared to \$9,870,189 for the same period in 2002. Revenues were \$8,357,371 for the six months ended June 30, 2003 compared to \$20,931,325 for the same period in 2002. Earned premiums were \$3,118,193 for the three months ended June 30, 2003 compared to \$2,058,341 for the same period a year ago. Earned premiums were \$5,377,996 for the six months ended June 30, 2003 compared to \$3,597,877 for the same period in 2002. Contract revenues were \$286,820 for the three months ended June 30, 2003 compared to \$6,634,068 for the same period a year ago. Contract revenues were \$1,011,113 for the six months ended June 30, 2003 compared to \$11,801,599 for the six months ended June 30, 2002. Contract revenue is difficult to predict and depends greatly on the successful securement of contracts bid.

Investment income was \$620,919 for the three months ended June 30, 2003 compared to \$913,114 for the same period in 2002. Investment income was \$1,255,238 for the six months ended June 30, 2003 compared to \$1,797,627 for the same period in 2002. The decrease in investment income was primarily related to a decrease in the yield on invested assets offset in part by an increase in invested assets. Net realized capital gains for the three months ended June 30, 2003 were \$22,649 compared to net realized capital losses of \$691 for the same period a year ago. Net realized capital gains were \$248,771 for the six months ended June 30, 2003 compared to net realized capital gains of \$16,962 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 \$303,597 for the three months ended June 30, 2003 compared to \$265,357 for the same period in 2002. Other income was \$464,253 for the six months ended June 30, 2003 compared to \$368,357 for the six months ended June 30, 2002. Other income consists primarily of rental income.

Losses and loss adjustment expenses were \$1,077,195 for the three months ended June 30, 2003 compared to \$496,680 for the same period a year ago. The increase in loss and loss adjustment expense for the three month period ended June 30, 2003 compared to the same period a year ago reflects an increase in the current year loss and loss adjustment expense ratio and an increase in earned premiums. Losses and loss adjustment expenses were \$1,863,319 for the six months ended June 30, 2003 compared to \$3,078,223 for the same period a year ago. The losses and loss adjustment expenses for the six month period ended June 30, 2002 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 \$2,200,000. Amortization of policy

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acquisition costs were \$597,346 for the three months ended June 30, 2003 compared to \$416,256 for the same period in 2002. Amortization of policy acquisition costs were \$1,024,696 for the six months ended June 30, 2003 compared to \$848,819 for the six months ended June 30, 2002. The increase in amortization of policy acquisition costs reflects increase in earned premium offset in part by a decrease in commissions paid.

Costs of contract revenues were \$305,244 for the three months ended June 30, 2003 compared to \$6,937,171 for the same period a year ago, representing gross profit (loss) margin (6.4)% and (4.6)%, respectively. Costs of contract revenues were \$943,629 for the six months ended June 30, 2003 compared to \$12,611,912 for the same period a year ago, representing gross profit (loss) margins of 6.7% and (6.9)%, 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.

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General and administrative expenses were \$1,322,413 for the three months ended June 30, 2003 compared to \$1,254,136 for the same period a year ago. The increase in general and administrative expense for the three month period ended June 30, 2003 compared to the same period a year ago reflects an increase in bad debt expense in 2003. General and administrative expenses were \$2,617,290 for the six months ended June 30, 2003 compared to \$2,694,679 for the six months ended June 30, 2002. The decrease in general and administrative expenses for the six months ended June 30, 2003 compared to 2002 is due primarily to a one-time investment write-off in 2002.

Interest expense was \$267,049 for the three months ended June 30, 2003 compared to \$505,868 for the same period in 2002. Interest expense was \$554,429 for the six months ended June 30, 2003 compared to \$1,043,082 for the same period a year ago. The decrease in interest expense is due to the decrease in long-term debt and replacement of high-interest bearing debt with lower interest-bearing debt during the fourth quarter of 2002.

Income tax expense was \$278,341 for the three months ended June 30, 2003 compared to income tax benefit of \$546,085 for the same period a year ago representing effective tax rates of 35.6% and (210)%, respectively. Income tax expense was \$471,831 for the six months ended June 30, 2003 compared to income tax benefit of \$888,862 for the same period a year ago, representing effective tax rates of 34.8% and (136)%, respectively. The effective tax rate in 2003 reflects the Company's reduction in tax exempt interest. The effective rate in 2002 reflects the recognition of net life insurance proceeds which are exempt for income tax purposes.

Results of Operations by Segment:

| ACSTAR BONDING: | Three Months ended June 30, | | Six Months ended June 30, | |
|--------------------|-----------------------------|-----------|---------------------------|-----------|
| | 2003 | 2002 | 2003 | 2002 |
| Revenue | \$1,800,826 | 1,545,516 | 3,548,677 | 2,678,383 |
| Operating Earnings | \$ 402,102 | 599,538 | 1,073,820 | 361,358 |

Revenues for the ACSTAR Bonding segment were \$1,800,826 for the three months ended June 30, 2003 compared to \$1,545,516 for the same period in 2002. Revenues for the ACSTAR Bonding segment were \$3,548,677 for the six months ended June 30,

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2003 compared to \$2,678,383 for the six months ended June 30, 2002. Net written premiums were \$2,052,091 for the three months ended June 30, 2003 compared to \$1,359,801 for the three months ended June 30, 2002. Net written premiums were \$3,304,780 for the six months ended June 30, 2003 compared to \$2,026,933 for the same period a year ago. Earned premiums were \$1,700,822 for the three months ended June 30, 2003 compared to \$1,208,216 for the three months ended June 30, 2002. Earned premiums were \$2,878,796 for the six months ended June 30, 2003 compared to \$2,011,394 for the six months ended June 30, 2002.

The increase in net written premiums for the three and six months ended June 30, 2003 as compared to the three and six months ended June 30, 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 \$248,840 for the three months ended June 30, 2003 compared to \$338,004 for the same period a year ago. Investment income was \$572,326 for the six months ended June 30, 2003 compared to \$668,384 for the six months ended June 30, 2002. The 2003 investment income reflects a decrease in the effective yield on invested assets offset in part by an increase in invested assets.

Operating earnings for the ACSTAR Bonding segment were \$402,102 for the three months ended June 30, 2003 compared to \$599,538 for the same period in 2002. The decrease in operating earnings for the three months ended June 30, 2003 compared to the same period a year ago reflects an increase in losses and loss adjustment expenses and an increase in Funds Administration fees paid to ACMAT offset by an increase in earned premiums. Operating earnings for the six months ended June 30, 2003 were \$1,073,820 compared to \$361,358 for the six months ended June 30, 2002. The operating earnings for the six months ended June 30, 2003 reflect the increase in earned premiums and realized capital gains. 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 and the emergence of adverse loss trends in 2002.

Losses and loss adjustment expenses were \$510,247 for the three months ended June 30, 2003 compared to \$241,643 for the same period a year ago. The increase in loss and loss adjustment expense for the three month period ended June 30, 2003 compares to the same period a year ago reflects an increase in the loss and loss adjustment expense ratio and an increase in earned premiums. Losses and loss adjustment expenses were \$863,639 for the six months ended June 30, 2003 compared to \$902,279 for the same period a year ago. The 2002 losses and loss adjustment expenses for the six months ended June 30, 2002 reflects the strengthening of loss reserves by a net amount of \$500,000. Amortization of policy acquisition costs were \$564,737 for the three months ended June 30, 2003 compared to \$461,380 for the same period in 2002. Amortization of policy acquisition were \$996,905 for the six months ended June 30, 2003 compared to \$799,408 for the same period a year ago.

General and administrative expenses were \$323,740 for the three months ended June 30, 2003 compared to \$242,955 for the same period a year ago. General and administrative expenses were \$614,313 for the six months ended June 30,

2003 compared to \$615,338 for the same period a year ago. The increase in general and administrative expenses for the three months ended June 30, 2003 is due primarily to a one-time rent recovery from an affiliate in 2002.

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| INSURANCE: | Three Months ended June 30, | | Six Months ended June 30, | |
|---------------------------|-----------------------------|-----------|---------------------------|-----------|
| | 2003 | 2002 | 2003 | 2002 |
| Revenue | \$1,754,968 | 1,338,764 | \$3,154,383 | 2,576,980 |
| Operating Earnings (Loss) | \$ 457,252 | 759,350 | \$ 892,301 | (503,803) |

Revenues for the United Coastal Liability Insurance segment were \$1,754,968 for the three months ended June 30, 2003 compared to \$1,338,764 for the same period in 2002. Revenues were \$3,154,383 for the six months ended June 30, 2003 compared to \$2,576,980 for the six months ended June 30, 2002. Net written premiums were \$2,009,493 for the three months ended June 30, 2003 compared to \$1,166,080 for the three months ended June 30, 2002. Net written premiums were \$4,045,985 for the six months ended June 30, 2003 compared to \$1,970,835 for the same period a year ago. Earned premiums were \$1,417,371 for the three months ended June 30, 2003 compared to \$850,125 for the three months ended June 30, 2002. Earned premiums were \$2,499,200 for the six months ended June 30, 2003 compared to \$1,586,483 for the six months ended June 30, 2002. The increase in net written premiums reflects the impact of the favorable insurance market and an increase in new business.

Investment income was \$326,008 for the three months ended June 30, 2003 compared to \$484,704 for the same period a year ago. Investment income was \$591,923 for the six months ended June 30, 2003 compared to \$966,064 for the six months ended June 30, 2002. The decrease in investment income was primarily related to a decrease in the effective yield on invested assets and a slight decrease in the amount of invested assets. There were no net realized capital gains for the three months ended June 30, 2003 compared to net realized capital losses of \$691 for the same period a year ago. Net realized capital gains for the six month period ended June 30, 2003 were \$45,977 as compared to \$17,199 for the same period a year ago.

Operating earnings for the United Coastal Liability Insurance segment were \$457,252 for the three months ended June 30, 2003 as compared to \$759,350 for the same period in 2002. Operating earnings for the six months ended June 30, 2003 were \$892,301 compared to operating losses of \$503,803 for the six months ended June 30, 2002. The operating loss for the six months ended June 30, 2003 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 \$566,948 for the three months ended June 30, 2003 compared to \$255,037 for the same period a year ago. The increase in loss and loss adjustment expense for the three month period ended June 30, 2003 compares to the same period a year ago reflects an increase in the loss and loss adjustment expense ratio and an increase in earned premiums. Losses and loss adjustment expenses were \$999,680 for the six months ended June 30, 2003 compared to \$2,175,944 for the same period a year ago. The 2002 losses and loss adjustment expenses is attributable to the strengthening of loss reserves due to adverse development in prior years. During the three-month period ended March 31, 2002, the Company increased United Coastal reserves by a net amount of \$1,700,000. Amortization of policy acquisition costs were \$400,020 for the three months ended June 30, 2003 as compared to \$207,094 for the same period in 2002. Amortization of policy acquisition were \$693,733 for the six months ended June 30, 2003 compared to \$426,973 for the same period a year ago. The increase amortization of policy acquisition costs is primarily attributable to the increase in earned premiums.

General and administrative expenses were \$330,748 for the three months ended June 30, 2003 compared to \$117,283 for the same period a year ago. General and administrative expenses were \$568,669 for the six months ended June 30, 2003

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compared to \$477,866 for the same period a year ago. General and administrative expenses for 2003 reflects an increase in bad debt expense. General and administrative expenses for the three months ended June 30, 2002 reflect a reduction in rent expense from a one-time rent recovery from an affiliate.

| ACMAT CONTRACTING: | Three Months ended June 30 | | Six Months ended June 30, | |
|---------------------------|----------------------------|-----------|---------------------------|-------------|
| | 2003 | 2002 | 2003 | 2002 |
| Revenue | \$1,497,810 | 7,615,271 | 2,909,961 | 13,486,948 |
| Operating Earnings (Loss) | \$ 190,626 | (592,942) | (57,684) | (1,508,766) |

Revenues for the ACMAT Contracting segment were \$1,497,810 for the three months ended June 30, 2003 compared to \$7,615,271 for the same period in 2002. Revenues were \$2,909,961 for the six months ended June 30, 2003 compared to \$13,486,948 for the same period a year ago. The 2003 decrease in revenue reflects a decrease in contract revenues compared to 2002 due to the completion of most backlog during 2002. Contract revenue is difficult to predict and depends greatly on the successful securement of contracts bid.

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Operating earnings for the ACMAT Contracting segment were \$190,626 for the three months ended June 30, 2003 compared to operating losses of \$592,942 for the same period a year ago. Operating losses were \$57,684 for the six months ended June 30, 2003 compared to operating losses of \$1,508,766 for the six months ended June 30, 2002. The operations in 2003 reflect a significant decrease in contract revenue and the decrease in rental income charged to ACSTAR and United Coastal effective January 1, 2003. The operating loss in 2002 is due primarily to additional remediation expenses incurred on a construction project that significantly exceeded the original estimate.

The 2003 decrease in revenue reflects the completion of most of the backlog in 2002. Contract revenue depends greatly on the successful securement of contracts bid and execution. The Company is substantially complete with its current projects and its current backlog relates to primarily one profitable project. The backlog at June 30, 2003 was \$4,000,000 compared to \$6,000,000 at June 30, 2002. The 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 \$305,244 for the three months ended June 30, 2003 compared to \$6,937,171 for the same period in 2002 representing gross profit (loss) margin of (6.4)% and (4.6)%, respectively. Cost of contract revenues were \$943,629 for the six months ended June 30, 2003 compared to \$5,671,614 for the same period a year ago, representing gross profit (loss) margins of 6.7% and (6.9)%, respectively. Gross margin fluctuates each year based upon the profitability of specific projects.

General and administrative expenses were \$1,001,940 for the three months ended June 30, 2003 compared to \$1,271,042 for the same period a year ago. General and administrative expenses were \$2,024,016 for the six months ended June 30, 2003 compared to \$2,383,802 for the same period a year ago. The decrease in general and administrative expense is primarily due to a one-time investment write-off in 2002.

RESERVES FOR LOSSES AND LOSS ADJUSTMENT EXPENSES:

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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, 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 34.5% and 24.1% for the three-month period ended June 30, 2003 and 2002 respectively. The increase in losses and loss adjustment expenses is attributable to the emergence of loss trends in the current year. The Company's insurance subsidiaries' expense ratios under GAAP were 51.9% and 50.0% for the three-month period ended June 30, 2003 and 2002, respectively. The increase in the 2003 expense ratio results primarily from the increase in expensed offset by an increase in earned premiums. The Company's insurance subsidiaries' combined ratios under GAAP were 86.5% and 74.1% for the three-month period ended June 30, 2003 and 2002, respectively.

The Company's insurance subsidiaries' loss ratios under generally accepted accounting principles ("GAAP") were 34.6% and 85.6% for the six-month periods ended June 30, 2003 and 2002, respectively. The 2002 losses and loss adjustment expenses reflect the strengthening of loss reserves due to adverse development in prior years and emergence of loss trends in the current year. During the three-month period ended March 31, 2003, the Company increased reserves by a net amount of \$2,200,000. The Company's insurance subsidiaries' expense ratios under GAAP were 53.4% and 64.5% for the six-month period ended June 30, 2003 and 2002, respectively. The decrease in the 2003 expense ratio results primarily from the decrease in commissions paid and an increase in earned premiums. The Company's insurance subsidiaries' combined ratios under GAAP were 93.4% and 150.0% for the six-month period ended June 30, 2003 and 2002, respectively.

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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.

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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 \$10,338,203 and \$4,054,588 for the six-month period ended June 30, 2003 and 2002, respectively. The cash flow from operations is due primarily to the increase in cash collateral. Net cash flows from operations in 2002 resulted primarily from life insurance proceeds and cash collateral. The Company's cash flow was used to repay long-term debt and repurchase stock. The Company's short term investment strategy coincides with the relatively short maturity of its liabilities which are comprised primarily of reserves for losses covered by claims-made insurance policies, reserves related to surety bonds and collateral held for surety obligations.

Net cash used for investing activities in the first six-months of 2003 amounted to \$17,863,243 compared to \$2,359,730 for the same period in 2002. Purchases of investments are made based upon excess cash available after the payment of losses and loss adjustment expenses and other operating and non-operating expenses.

The terms of the Company's note agreements contain limitations on payment of cash dividends, re-acquisition of shares, borrowings and investments and require maintenance of specified ratios and minimum net worth levels, including cross default provisions. The Company was in compliance with the covenants at June 30, 2003, except for the ratio of Funded Debt to Statutory Earnings. The Company expects to be in compliance by the end of the year or to receive a waiver.

The Company maintains a short-term unsecured bank credit line totaling \$10 million to fund interim cash requirements. There were no borrowings under this line of credit as of June 30, 2003.

During the six-month period ended June 30, 2003, the Company purchased, in the open market and privately negotiated transactions, 2,000 shares of its Common Stock at an average price of \$10.33 per share. During the six-month period ended June 30, 2003, the Company also purchased, in the open market and privately negotiated transactions, 11,300 shares of its Class A Stock at an average price of \$8.28 per share.

The Company's principal source of cash for repayment of long-term debt is from dividends from its two insurance companies. Under applicable insurance regulations, ACMAT's insurance subsidiaries are restricted as to the amount of dividends they may pay to their respective holding companies, without the prior approval of their domestic State insurance department. The amount of dividends ACMAT's insurance subsidiaries may pay, without prior approval of their domestic State insurance departments, are limited to approximately \$4,491,000 in 2003.

REGULATORY ENVIRONMENT

Risk-based capital requirements are used as early warning tools by the National Association of Insurance Commissioners and the states to identify companies that require further regulatory action. The ratio for each of the Company's insurance

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subsidiaries as of June 30, 2003 was above the level which might require regulatory action.

CRITICAL ACCOUNTING POLICIES:

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

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

CONTRACTUAL CASH OBLIGATIONS AND COMMITMENTS:

Contractual obligations at June 30, 2003 include the following:

| Payment due by Period | Total | 2002 | 2003/2004 | 2005/2006 | After 2006 |
|----------------------------|--------------|-------------|-------------|-------------|-------------|
| | ----- | ---- | ----- | ----- | ----- |
| Long-Term Debt (principal) | \$20,314,632 | \$1,208,099 | \$5,223,604 | \$5,217,451 | \$8,665,478 |

The Company also has cash collateral of \$35,250,814 at June 30, 2003, which it would be required to return at the end of expiration of applicable bond period subject to any claims.

CONTROLS AND PROCEDURES:

The Company maintains disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) that are designed to ensure that information required to be disclosed in the Company's reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of June 30, 2003. Based upon

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

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

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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 26, 2003.

b. Directors elected at the meeting:

| | Votes For | Votes Against | Brokers Non-Votes |
|----------------------|--------------|------------------|----------------------|
| Henry Nozko III | 644,428 | 2,066 | -- |
| Henry Nozko, Jr | 647,528 | 506 | -- |
| Victoria Nozko | 644,310 | 2,183 | -- |
| John Creasy | 690,680 | 613 | -- |
| Arthur Moore | 690,908 | 386 | -- |
| Andrew Sullivan, Jr. | 690,908 | 350 | -- |

c. Other matters voted upon:

| | For | Against | Abstain | Brokers Non-Votes |
|--|---------|---------|---------|----------------------|
| 1. Appointment of Independent Auditors | 690,827 | 350 | 316 | -- |

Item 5 - Other Information

Item 6 - Exhibits and Reports on Form 8-K

a. Exhibits:

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

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

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32.1 Certification of Chief Executive Officer, as required by Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification of Chief Financial Officer, as required by Section 906 of the Sarbanes-Oxley Act of 2002

b. Report on Form 8-K - None

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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, 2003

/S/ Henry W. Nozko, Jr.

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

Date: August 14, 2003

/S/ Michael P. Cifone

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

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