ACMAT CORP
Form 10-K
March 30, 2004

SECURITIES AND EXCHANGE COMMISSION
FORM 10-K

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

For the fiscal year ended December 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
(Exact name of registrant as specified in its charter)

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)	(Zip Code)

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

Securities registered pursuant to Section 12 (b) of the Act: None

Securities registered pursuant to Section 12 (g) of the Act:
Common Stock, without par value
Class A Stock, without par value

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) or 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 such filing requirements for the past 90 days. Yes [X] No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

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

The aggregate market value of the Common Stock and Class A Stock held by non-affiliates of the registrant was $20,536,236 as of the Registrant's most recently completed second fiscal quarter.

As of March 1, 2004 there were 546,355 shares of the registrant's Common Stock and 1,741,704 shares of registrant's Class A Stock, each without par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Part III - Portions of the Registrant's definitive proxy statement to be issued in conjunction with the Registrant's annual meeting of stockholders to be held on June 24, 2004.

PART I

ITEM 1. BUSINESS

General

ACMAT Corporation ("ACMAT" or the "Company") provides specialized commercial insurance and bonding coverage for contractors, architects, engineers and other professionals in the construction and environmental fields and other specialty insurance such as products liability. The Company derives its underwriting expertise from its construction operations. Through United Coastal Insurance Company ("United Coastal"), the Company provides a broad line of specialty general liability and products liability insurance, professional liability insurance to architects, engineers and other professions and environmental liability insurance to specialty trade and environmental contractors, property owners, storage and treatment facilities and allied professionals. Through ACSTAR Insurance Company ("ACSTAR Insurance"), the Company provides surety bonds for general building, specialty trade and environmental contractors and all forms of commercial surety. Both United Coastal Insurance and ACSTAR Insurance are rated A- (excellent) by A.M. Best Co., Inc. ("A.M. Best").

The Company is also engaged in construction contracting which consists of general building construction for new buildings and interior contracting services of building interiors for commercial, industrial and institutional buildings.

Financial Information about Operating Segments

Financial information relating to the three business segments is set forth in Note 16 to the consolidated financial statements included in this document.

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

The United Coastal Liability Insurance operating segment offers specific lines of liability insurance as an approved non-admitted excess and surplus lines insurer in forty-seven 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 provides specialty general, environmental and professional liability insurance primarily to general contractors, specialty trade and environmental contractors, property owners, storage and treatment facilities and allied professionals. United Coastal also offers products liability policies to manufacturers. In addition, the company offers professional liability coverage to architects, consultants and engineers.

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

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.

UNITED COASTAL LIABILITY INSURANCE

The liability insurance lines of the Company are discussed more fully below:

Contractors

- General Liability - Policies are offered to general contractors and specialty trade contractors involved in plumbing, heating, electrical, framing, roofing, drilling, excavation, demolition, road work, and other contracting activities. Coverage is also offered for other specialized non-contractor general liability risks. Coverage is limited to third-party bodily injury and property damage arising out of covered operations. General liability insurance is offered on either a claims-made or occurrence basis.

- Contractor Pollution Liability - Policies are offered to contractors involved in hazardous waste remediation or cleanup, installation or removal of storage tanks, or the transportation of hazardous waste. Coverage is provided for third party-bodily injury or property damage liability caused by release of, or exposure to,

pollutants as a result of contractors' operations. Contractor pollution liability insurance is offered on a claims-made basis.

- Asbestos and Lead Abatement Liability - Policies are offered to contractors involved in the removal or encapsulation of asbestos and/or lead containing materials from structures or their containment through appropriate encapsulation or repair. Coverage is provided for third-party bodily injury and property damage liability as a result of a release of asbestos or lead which arises out of the contractors' operations. Asbestos and lead abatement liability insurance is provided primarily on a claims-made basis.

Professionals

- Architects and Engineers Professional Liability - Policies are offered to architects and engineers and consultants in the fields of architecture; civil, electrical, mechanical, structural and process engineering; construction/property management; design/build services; laboratory testing and surveying. Project professional liability policies are also offered for architect and engineer design teams and owner controlled wrap-ups. All policies are written on a claims-made basis.

- Environmental Asbestos and/or Lead Consultants Professional Liability - Policies are offered to consultants involved in providing services such as environmental assessments, design/build services, asbestos or lead consulting, remedial investigations and feasibility studies, and storage tank consulting. Coverage is provided for liability arising out of the acts, errors or omissions of a consultant in the performance of professional services. All professional liability coverages are written on a claims-made basis.

Owners and Lenders

- Hazardous Waste Storage and Treatment Pollution Liability - Policies are offered on a claims-made basis in response to the insurance requirements of the Environmental Protection Agency in connection with facilities subject to the Resource Conservation and Recovery Act of 1976 ("RCRA").

- Site Specific Pollution Liability - These policies cover pollution claims arising or emanating from a specific site and are provided on a claims-made basis. Comprehensive site evaluations are required prior to providing coverage for any site.

- Lenders Pollution Liability - Policies are offered to financial institutions for pollution occurring at property owned or controlled by the institution as a result of foreclosure or otherwise. Lender pollution liability coverage is offered on a claims-made basis.

Products Liability

- Products Liability - Policies are offered on a claims-made or occurrence basis to manufacturers for a variety of products including chemicals, fertilizers, pesticides, pollution control devices, storage tanks and other.

The Company customizes many of its insurance policies to suit the individual needs of its insureds. One limit insuring multiple exposures under one policy form and limit are offered.

The combined ratio is a traditional measure of underwriting profitability. When the combined ratio is under 100%, underwriting results are generally considered profitable. Conversely, when the combined ratio is over 100%, underwriting results are considered unprofitable. The combined ratio does not reflect investment income, federal income taxes or other non-operating income or expense.

The following table sets forth the combined ratios of United Coastal Liability Insurance, prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and statutory accounting principles prescribed or permitted by state insurance authorities.

		Year Ended Decemb
	2003	2002
GAAP Ratios:		
Loss ratio	53.2%	77.6%
Expense ratio	47.1	56.3
GAAP combined ratio	100.3	133.9
Statutory Ratios:		
Loss ratio	53.2	77.6
Expense ratio	42.8	56.8
Statutory combined ratio	96.0%	134.4%

The improvement in the combined ratios for 2003 are the result of improved loss experience and an increase in written and earned premium. The increase in the 2002 combined ratios over the 2001 results primarily from two large losses reported in 2002 of $1.7 million. See Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations".

ACSTAR Bonding

Surety bonds are written for general, specialty trade, environmental, asbestos and lead abatement contractors. The Company also offers a wide variety of miscellaneous bonds. Most bonds are supported by various levels of collateral based upon the financial condition of the customer.

The Company often requires cash or irrevocable letters of credit to collateralize a portion of most bonds issued. In addition, the Company will only accept irrevocable letters of credit from financial institutions which have a rating of C "sound credit risk" or higher as determined by Fitch Ratings. However, no assurance can be made that such financial institutions will maintain their financial strength and, thus, that funds guaranteed under letters of credit will be available, if needed, to offset any potential claims.

The Company provides the following types of bonds:

- Payment and performance bonds - Bonds are provided for general building and specialty trade contractors, environmental remediation and asbestos abatement contractors and consultants, lead abatement contractors and solid waste disposal contractors. A payment and performance bond guarantees satisfactory performance and completion of the contractor's work and payment of the contractor's debts and obligations relating to the performance of the contract covered by the bond.

- Closure and post-closure bonds - Bonds are provided for owners of solid and hazardous waste landfills as required to meet certain requirements under RCRA and remediation bonds in connection with the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA"). Closure bonds usually guarantee that a property owner will restore property to a specified level or condition. Post-closure bonds guarantee cultivation and maintenance of a closed site.

- Supply and other specialty bonds - Bonds are provided for contractors, manufacturers and other owners in their normal course of operations, usually to guaranty the supply of equipment and material.

- Miscellaneous surety, license, permit, self insurer, supersedeas and other bonds - Miscellaneous bonds are provided for applicants based on those requirements specified in the bond form and the applicant's financial strength.

The underwriting department and management are responsible for the development of new insurance products and enhancements. Underwriting profitability is enhanced by the creation of niche products focused on classes of business which traditionally have provided underwriting profits.

The following table sets forth the combined ratios of ACSTAR Bonding, prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") and statutory accounting principles prescribed or permitted by state insurance authorities.

	Year Ended Decem	
	2003	2002

GAAP Ratios:		
Loss ratio	29.9%	32.5%
Expense ratio	49.7	71.1
	----	-----
GAAP combined ratio	79.6	103.6
	====	=====
Statutory Ratios:		
Loss ratio	29.9	32.5
Expense ratio	46.3	67.2
	----	-----
Statutory combined ratio	76.2%	99.7%
	====	=====

The improvement in the combined ratios for 2003 are the result of improved loss experience and an increase in written and earned premium. The increase in the 2002 combined ratios over the 2001 results primarily from a large loss reported in 2002 of $0.5 million. See Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Underwriting

The Company's underwriting practices rely heavily upon the knowledge base which it has developed in over fifty years of construction contracting. Accordingly, ACMAT, in addition to its construction contracting operations, provides risk evaluation, loss adjustment, underwriting, claims handling, funds administration and monitoring services for its insurance subsidiaries, United Coastal Insurance and ACSTAR Insurance. Contractors seeking liability insurance and bonding through the Company are carefully reviewed with respect to their past practices, claims history and records. Other factors considered are the contractors' and professionals' financial conditions, training techniques, safety procedures, histories of violations, record keeping, supervisory qualifications and experience.

Underwriting procedures for products liability insurance involve conducting an in-depth review of the product that is being manufactured or distributed. Such review involves examining an applicant's past record of recalls, claims history and litigation.

The Company's underwriting and pricing strategy is designed to produce an underwriting profit resulting in a Company-wide combined ratio below 100% for Statutory and GAAP. This has been achieved in two of the past three years.

The Company continually monitors financial stability of contractors with surety bonds outstanding. Work in progress reports and updated financial information are reviewed periodically by the Company to ensure that the contractor continues to meet the underwriting guidelines. The Company also sends out status reports to the Obligees to monitor progress of the projects.

Reinsurance

In the normal course of business, the Company assumes and cedes reinsurance with other companies. Reinsurance ceded primarily represents excess of loss reinsurance with companies with "A" ratings from the insurance rating organization, A.M. Best. Reinsurance ceded also includes facultative reinsurance which is applicable to excess policies written over a primary policy issued by the Company for specific projects. Reinsurance is ceded to limit losses from large exposures and to permit recovery of a portion of direct losses; however, such a transfer does not relieve the originating insurer of its liability.

Effective November 1, 2002 through April 30, 2004, the Company cedes 80% of its exposure in excess of $1,000,000 up to $5,000,000 on a per principal/insured basis. Prior to October 31, 2002, reinsurance was applicable on a per principal/insured basis for 100% of the losses in excess of $1,000,000 up to $8,000,000. From May 1, 2000 to April 30, 2002, the Company also reinsured surety losses on a per principal basis for losses in excess of $8,000,000 up to $13,000,000.

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The availability and price of reinsurance fluctuates according to market conditions. The renewal of the reinsurance treaty in 2002 was arranged at a moderate price increase and involved the Company's participation. Depending on the availability and cost of reinsurance, the Company may, from time to time, elect to cede greater or lesser portions of its underwriting risk. The reinsurance treaty is effective through April 30, 2004.

Claims

The Company directly handles substantially all claims of its insureds, except that independent claims adjusters and/or counsel, selected for their experience and reputation in the locality of the claim, are retained to conduct initial fact-finding investigations. All decisions respecting payment of claims are made by experienced employees of the Company.

Reserves for Losses and Loss Adjustment Expenses

Reserves for losses and loss adjustment expenses are estimates at any given point in time of what the Company may have to ultimately pay on incurred losses, including related settlement costs, based on facts and circumstances then known. The Company also reviews its claims reporting patterns, past loss experience, risk factors and current trends and considers their effect in the determination of estimates of incurred but not reported losses. 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 contractor and its indemnitors. Management believes that the reserves for losses and loss adjustment expenses at December 31, 2003 are adequate to cover the unpaid portion of the ultimate net cost of losses incurred through that date and related adjustment expenses incurred, including losses incurred but not reported. The Company also has the reserves evaluated independently by a qualified actuary.

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. In determining appropriate adjustments to reserves 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 and collateral. Reserves are monitored and recomputed periodically using new information on reported claims.

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The following table sets forth a reconciliation of beginning and ending reserves for losses and loss adjustment expenses for the periods indicated on a GAAP basis for the business of the Company.

	2003	2002
Balance at January 1	$25,642,865	$22,585,626
Less reinsurance recoverable	8,383,894	2,772,668
Net balance at January 1	17,258,971	19,812,958
Incurred related to:		
Current year	4,283,000	4,363,000
Prior years	710,991	(291,601)
Total incurred	4,993,991	4,071,399
Payments related to:		
Current year	40,000	625,000
Prior years	5,740,616	6,000,386
Total Payments	5,780,616	6,625,386
Net balance at December 31	16,472,346	17,258,971
Plus reinsurance recoverable	4,376,220	8,383,894
Balance at December 31	$20,848,566	$25,642,865

The decrease in net loss and loss adjustment expense reserves in 2003 from 2002 and 2001 was primarily due to payments on surety and general liability policies for prior years net of subrogation and ceded recoveries partially offset by unfavorable development in prior accident years. Loss and loss adjustment expenses incurred primarily reflects two large losses of approximately $2.2 million in 2002. The increase in reinsurance recoverable in 2002 from 2001 is primarily due to one liability claim, which exceeded the limits retained by the Company. The claim was partially paid to the Company in 2003.

While management continually evaluates the potential for changes in loss estimates, due to the uncertainty inherent in the liability and surety business, the emergence of net favorable development may or may not occur. Management believes that the reserves for losses and loss adjustment expense are adequate to cover the unpaid portion of the ultimate net cost of losses and loss adjustment expenses, including losses incurred but not reported.

The Company has no exposure to any asbestos or environmental claims associated with general liability policies issued with the pre-1986 pollution exclusion. Policies written without the exclusion are typically associated with mass tort environmental and asbestos claims. The Company has never issued a policy with the pre-1986 pollution exclusion. The Company's exposure to asbestos and environmental liability claims is primarily limited to asbestos and environmental liability insurance for contractors and consultants involved in the remediation, removal, storage, treatment and/or disposal of environmental and asbestos hazards.

As of December 31, 2003, 2002 and 2001 reserves for the combined losses and loss adjustment expenses of the Company's insurance operations as determined in accordance with accounting principles and practices prescribed or permitted by insurance regulatory authorities ("Statutory basis reserves") were $16,472,346, $17,258,971 and $19,812,958, respectively. As of December 31, 2003, 2002 and

2001 reserves determined in accordance with GAAP were $20,848,566, $25,642,865 and $22,585,626, respectively. The difference between the Statutory basis reserves and the GAAP basis reserves is the netting of reinsurance recoverable against losses and loss adjustment expense reserves for statutory purposes.

The following losses and loss adjustment expense reserve runoff table is for the combined insurance operations of the Company's insurance subsidiaries. Each column shows the reserve held at the indicated calendar year-end and cumulative data on payments and re-estimated liabilities for that accident year and all prior accident years making up that calendar year-end reserve. Therefore, the redundancy (deficiency) is also a cumulative number for that year and all prior years. It would not be appropriate to use this cumulative history to project future performance.

	1993	1994	1995	1996	1997	1998	1999	2000
			(thousands)					
Net liability for unpaid losses and loss adjustment expenses	30,437	36,726	41,363	44,119	45,423	40,891	34,620	26,730
Liability re-estimated as of:								
One year later	30,437	35,825	40,193	43,282	43,106	37,816	33,503	26,735
Two years later	28,337	34,659	37,872	40,865	35,698	36,741	27,656	22,744
Three years later	27,170	29,913	35,354	33,359	33,735	31,108	24,781	22,469
Four years later	23,550	27,193	28,149	30,999	27,004	28,669	23,586	
Five years later	20,880	19,486	25,057	25,663	24,951	27,559		
Six years later	13,673	16,254	21,499	23,315	24,128			
Seven years later	11,915	14,125	19,351	22,713				
Eight years later	10,819	11,968	18,849					
Nine years later	8,762	11,694						
Ten years later	8,807							
Gross cumulative Redundancy (deficiency):	21,630	25,032	22,514	21,408	21,295	13,334	11,042	4,266
Paid (cumulative) as of:								
One year later	1,560	2,361	3,067	2,942	6,703	7,903	8,610	6,663
Two years later	3,655	4,582	5,256	8,951	13,928	14,843	13,766	9,651
Three years later	5,022	6,412	8,922	16,047	16,655	19,920	13,888	10,422
Four years later	6,189	7,969	15,601	18,597	20,208	22,302	13,966	
Five years later	6,869	12,425	17,564	21,791	22,041	21,654		
Six years later	9,723	13,094	19,885	22,550	22,316			
Seven years later	10,296	13,902	20,180	22,687				
Eight years later	11,058	13,796	20,295					
Nine years later	9,529	13,849						
Ten years later	9,554							
Gross liability - end of year	34,730	40,955	45,235	47,960	48,901	43,115	38,544	29,311
Reinsurance recoverable	4,293	4,229	3,872	3,841	3,478	2,224	3,924	2,581
Net liability - end of year	30,437	36,726	41,363	44,119	45,423	40,891	34,620	26,730

In 1995, the Company changed its method of reporting estimated liabilities for claims-made policies which is reflected in the reserve run-off table. For calendar years 1994 and prior, reserves associated with claims-made policies were reported based on accident year basis consistent with the Company's treatment in Schedule P to the Company's Statutory Annual Statement. At the request of the Arizona Insurance Department, ("Department") the Company was required to change its method of reporting in Schedule P to the Annual Statement, reserve and payment data associated with claims-made policies to a report year basis versus an accident year basis in order to comply with the National Association of Insurance Commissioners ("NAIC") guidelines. The Company's prior treatment of claims-made loss data on an accident basis was approved by the Department during years prior to 1995. For its 1995 statutory filing, the Company restated loss data reported in Schedule P to comply with the Department's request. As a result of the change to Schedule P for claims-made policies, the Company has also changed the method for reporting claims-made loss payment data in the reserve run-off table to conform to a report year basis for claims-made policies. Occurrence policies were and continue to be reported on an accident year basis. The 1995 re-estimated liabilities for each calendar year have been restated to reflect the new method of reporting.

Because of the change in reporting loss data for claims-made policies from an accident year basis to a report year basis, prior accident year reserves have been moved forward to fall within the report year resulting in no change to total reserve amounts or estimates. Management believes that the aggregate reserves for losses and loss adjustment expenses for all accident years are adequate.

IRIS Ratios

The National Association of Insurance Commissioners ("NAIC") has developed the Insurance Regulatory Information System ("IRIS"), intended to assist state insurance departments in executing their statutory mandates to oversee the financial condition of insurance companies operating in their respective states. IRIS identifies twelve industry ratios and specifies "usual values" for each ratio. When an insurance company's ratio falls outside the "usual value," it is designated an "unusual value," which event alerts state insurance departments to potential problems. For the year ended December 31, 2003, ACSTAR, had two IRIS ratios designated as an "unusual value" and United Coastal had three IRIS ratios designated as an "unusual value".

ACSTAR's investment yield ratio of 2.6% was below the minimum yield ratio of 4.5% primarily because of ACSTAR's 34% ownership of United Coastal which was not a significant income producer in 2003. ACSTAR's change in net writings increased 76% which exceeded the "usual value" of 33%. The increase in net writings is due to growth in new

business and strong customer retention. In addition, both gross and net written premiums to policyholders surplus is below the "unusual" levels.

United Coastal's investment yield ratio of 3.8% was below the minimum yield ratio of 4.5% primarily because of the lower interest rate environment and the short duration of the investment portfolio in 2003. United Coastal's change in net writings increased 77% which exceeded the "usual value" increase of 33%. The increase in net writings is due to significant rate increases on new and renewal business and strong customer retention. The estimated current reserve deficiency to policyholders surplus was 46% which was in excess of the usual value of 25%. This ratio relies on indicated ratios of reserve need to earned premium for prior years to estimate current reserve need. This ratio does not provide appropriate results because the growth in earned premium is due to increases in premium per policy rather than exposure increase.

A.M. Best Ratings

A.M. Best ratings are indications of the solvency of an insurer based on an analysis of the financial condition and operations of a company relative to the industry in general. Occasionally, the requirement for an A.M. Best's-rated insurer is a condition imposed upon the contractor by the party engaging the contractor. Certain insurance brokers also restrict the business they will place with insurers which are not A.M. Best's-rated. The 2003 Best letter ratings range from A++ (superior) to F (in liquidation). United Coastal Insurance and ACSTAR Insurance each have an A.M. Best's rating of A- (excellent).

The Company's insurance operations could be negatively impacted by a downgrade in the Company's rating. If this were to occur, there could be a reduced demand for certain products in certain markets.

Risk-Based Capital

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

Terrorism Risk Insurance Act of 2002

On November 26, 2002, the Terrorism Risk Insurance ACT of 2002 (the Terrorism Act) was enacted into Federal law and established a temporary Federal program in the Department of the Treasury that provides for a system of shared public and private compensation for insured losses resulting from acts of terrorism committed by or on behalf of a foreign interest. In order for a loss to be covered under the Terrorism ACT (i.e., subject losses), the loss must be the result of an event that is certified as an act of terrorism by the U.S. Secretary of Treasury; with the exception of workers' compensation claim payments, losses arising as a result of a war declared by Congress are not covered by the Terrorism Act. The Terrorism Insurance Program (the Program) generally requires that all commercial property casualty insurers licensed in the U.S. participate in the Program. The Program became effective upon enactment and terminates on December 31, 2005. The amount of compensation paid to participating insurers under the Program is 90% of subject losses, after an insurer deductible, subject to an annual cap. The deductible under the Program is 7% for 2003, 10% for 2004 and 15% for 2005. In each case, the deductible percentage is applied to the insurer's direct earned premiums from the calendar year immediately preceding the applicable year. The Program also contains an annual cap that limits the amount of subject losses to $100 billion aggregate per program year. Once subject losses have reached the $100 billion aggregate during a program year, there is no additional reimbursement from the U.S. Treasury and an insurer that has met its deductible for the program year is not liable for any losses (or portion thereof) that exceed the $100 billion cap.

ACMAT CONTRACTING

General

The Company provides a broad range of general building construction and coordinated interior contracting services. The Company began to offer asbestos abatement services in the 1970's and the Company continues to be active in the asbestos abatement field. The Company provides new and renovation general construction and installs interiors for office buildings, retail establishments, schools, colleges, churches, hospitals and other buildings. The Company's general building construction and interior contracting is provided both in connection with new buildings and in connection with the remodeling and renovation of interiors of existing buildings usually under contracts with building owners and building occupants. The Company provides a broad range of coordinated interior contracting services, many of which are performed by subcontractors

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Backlog

The following table sets forth the Company's backlog of unbilled contract amounts representing the estimated sales value of work to be performed under contract, the total number of contracts and the number of contracts with unbilled amounts in excess of $400,000 as of December 31, 2003 and 2002:

	December 31, 2003
Total Number of Contracts.	7
Total unbilled contract amounts.	$9,680,000
Number of contracts with unbilled amounts in excess of $400,000.	4
Aggregate unbilled amount of contracts in excess of $400,000.	$9,540,000

The Company estimates that most of the December 31, 2003 backlog will be completed prior to December 31, 2004.

Materials

The Company purchases the materials it installs in the course of its construction contracting operations from a number of suppliers. Most of the Company's materials are standard building components which historically have been readily available from several suppliers. Some components are manufactured to the Company's specifications. Most of the materials used by the Company are shipped directly to the job site by the manufacturer.

Contract Acquisition

The Company's work projects are obtained by lump sum fixed price bids, unit prices or are negotiated. Contract prices are usually determined by competition with other contractors.

Warranty

Each project usually contains a one-year warranty or guaranty period, wherein the Company and its subcontractors warrant that the work is free from defects and was performed in accordance with the plans and specifications. Occasionally, the Company is required to make minor corrections or adjustments, but has not incurred any significant costs in connection with any such work.

Asbestos Abatement Operations

Both the Company's insurance and construction contracting operations have involved risks associated with asbestos. The Company has in the past insured, and continues to insure, risks associated with asbestos abatement or containment operations on primarily a claims-made basis. Since harm from exposure to asbestos fibers may not be detectable in humans for as much as thirty years, losses under insurance contracts written on an occurrence basis may not be known for some time.

The Company's construction contracting operations may involve the removal of asbestos. As asbestos containing materials deteriorate or become disturbed by incidental or intentional contact, asbestos fibers may enter the air and can circulate into the breathing zone of building occupants. Exposure to asbestos may be a cause of cancer. In the mid 1970's, the Company became engaged in the removal of asbestos in addition to its other contracting operations. Since that time, it has been engaged in hundreds of contracts involving the removal of asbestos. Claims by employees and non-employees related to asbestos have been made against the Company from time to time and are pending and there can be no assurance that additional claims will not be made in the future. The Company does not believe that any significant exposure exists relating to these claims.

The Company believes that it is fully covered by workers' compensation insurance with respect to any claims by current and former employees relating to asbestos operations. The Company currently obtains its workers' compensation insurance in those states in which it performs work either from state insurance funds or one of several insurance companies designated in accordance with the Assigned Risk Pool. The amount of workers' compensation insurance maintained varies from state to state but is generally greater than the maximum recovery limits established by law and is not subject to any aggregate policy limits. In the past, the Company has received a number of asbestos-related claims from employees, all of which have been fully covered by its workers' compensation insurance. The Company believes that it is sufficiently insured with respect to all future claims.

MARKETING

Insurance and Bonding

As an excess and surplus lines carrier, United Coastal Insurance markets its policies through excess and surplus lines brokers only in those states in which it is permitted to write coverage. Currently, United Coastal Insurance is permitted to write excess and surplus lines insurance as an approved non-admitted insurer in forty-seven states, the District of Columbia, Puerto Rico and the Virgin Islands.

ACSTAR Insurance offers payment and performance bonds through insurance agents which specialize in the needs of contractors. All underwriting approvals and issuance of policies and bonds are performed directly by the Company's insurance subsidiaries.

The Company's insurance and bonding products are marketed in all 50 states, the District of Columbia, Puerto Rico and the Virgin Islands.

ACMAT Contracting

The Company markets its construction contracting services directly to building owners and building occupants. Project opportunities are brought to the attention of the Company through various sources such as F. W. Dodge Company, which publishes lists of projects available for bid, architects, owners, general contractors, or engineers who are familiar with the Company. The Company also depends upon repeat business and responses to the Company's advertising program.

ACMAT's sales force consists of its senior management and project managers, all of whom function as construction consultants and work closely with owners, tenants and architects.

COMPETITION

Insurance and Bonding

The property and casualty insurance industry is highly competitive. The Company competes with large national and smaller regional insurers in each state in which it operates, as well as monoline specialty insurers. The Company's principal competitors include certain insurance subsidiaries of American International Group, Inc. ("AIG"), Zurich Insurance Group, Admiral Insurance Company, CNA Insurance Companies, Gulf Insurance Company and Lloyd's of London. Many of its competitors are larger and have greater financial resources than the Company. Among other things, competition may take the form of lower prices, broader coverage, greater product flexibility, higher quality services or the insurer's rating by independent rating agencies. The Company competes with admitted insurers, surplus line insurers, new forms of insurance organizations such as risk retention groups, and alternative self-insurance mechanisms.

Competition in the field of surety bonding is intense and many of the Company's competitors are larger and have greater surplus than the Company, thereby allowing them to provide bonds with higher limits than those which the Company is able to provide. The Company's principal competitors include the St. Paul Companies, Inc., Gulf Insurance Company and CNA. The Company's insurance subsidiaries hold primary and reinsurance certificates of authority as acceptable sureties on Federal bonds as do approximately 250 to 300 other surety companies. The certificates give the Company an advantage over companies which are not certified by the United States Treasury Department with respect to surety bonding on Federal projects in that such certification has become a standard with respect to both Federal and other bonds. Approximately one-half of the surety bonds written by the Company's subsidiaries are required to be provided by a Treasury listed company. With respect to other bonds, the Company faces competition from as many as 1,000 additional non-certified surety companies.

ACMAT Contracting

Competition in the interior construction business serviced by ACMAT generally is intense. A majority of the Company's construction business is performed on projects on which the Company had been in competition with other contractors. The Company also focuses efforts on privately negotiated contracts obtained through advertising and its reputation. Quality of service and pricing are the Company's principal methods of competition.

The economic climate of the Northeast has increased the competitive pressure on all aspects of the Company's contracting operations. The Company has responded with marketing efforts seeking to obtain business when the Company's reputation and experience allow it to privately negotiate contracts at prices which are sufficiently profitable.

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REGULATION

The business of ACMAT's insurance subsidiaries is subject to comprehensive and detailed regulation and supervision throughout the United States. The laws of the various jurisdictions establish supervisory agencies with broad administrative authority which includes, but is not limited to, the power to regulate licenses, to transact business, trade practices, agent licensing, policy forms, claim practices, underwriting practices, reserve requirements, the form and content of required financial statements and the type and amounts of investments permitted. The insurance companies are required to file detailed annual reports with supervisory agencies in each of the jurisdictions in which they do business, and their operations and accounts are subject to examination by such agencies at regular intervals.

As an approved non-admitted excess and surplus lines insurer, United Coastal Insurance is not subject to the comparatively more extensive state regulations to which ACSTAR Insurance is subject. The regulations and restrictions to which ACSTAR Insurance and United Coastal Insurance are subject include provisions intended to assure the solvency of ACSTAR Insurance and United Coastal Insurance and are primarily for the protection of policyholders and loss claimants rather than for the benefit of investors.

State insurance regulations impose certain restrictions upon the types of investments that the Company's insurance subsidiaries can acquire and the percentage of their capital or assets that may be placed in any particular investment or type of investment. Certain states also require insurance companies to furnish evidence of financial security by means of a deposit of marketable securities with the state insurance regulatory authority. On December 31, 2003, the Company's insurance subsidiaries had securities with an aggregate fair value of approximately $10.5 million on deposit with various state regulatory authorities.

The insurance subsidiaries of ACMAT are restricted as to the amount of cash dividends they may pay. During 2003, United Coastal Insurance paid $1,500,000 in dividends which was below the level that requires prior approval by the Arizona Insurance Department. At January 1, 2004, approximately $1,272,000 is available for the payment of dividends by United Coastal Insurance in 2004 without the prior approval of the Arizona Insurance Department.

Under applicable insurance regulations in its domicile state of Illinois, ACSTAR Insurance is also restricted as to the amount of dividends it may pay. ACSTAR may pay or declare a dividend only up to the amount of any available surplus funds derived from realized net profits on its business, as determined in accordance with statutory accounting principles. During 2003, ACSTAR paid $2,000,000 in dividends to ACSTAR Holdings which is below the level that requires prior approval by the Illinois Insurance Department. At January 1, 2004, approximately $2,643,000 is available for the payment of dividends by ACSTAR Insurance in 2004 without the prior approval of the Illinois Insurance Department.

INVESTMENTS

The Company's investment strategy is to maintain an investment policy focusing on acquiring high quality securities, primarily bonds, with fixed effective maturities of less than ten years. The investment portfolio is diversified and is in compliance with regulatory requirements. The Company's bond portfolio is composed primarily of investments rated AA or better by Standard and Poor's.

The Company's investment portfolio is subject to several risks including interest rate and reinvestment risk. Fixed maturity security values generally fluctuate inversely with movements in interest rates. The Company's corporate and municipal bond investments may contain call and sinking fund features which may result in early redemptions and the Company's mortgage-backed securities investments held by the Company are subject to prepayment risk. Declines in interest rates could cause early redemptions or prepayments which would require the Company to reinvest at lower rates.

Investment securities are classified as held to maturity, available for sale or trading. The Company currently classifies all investment securities as available for sale. Investment securities available for sale are carried at fair value and unrealized gains and losses are included in other comprehensive income, net of estimated income taxes.

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The Company historically invested in tax-exempt securities as part of its strategy to maximize after-tax income. As a result of the alternative minimum tax carryforward of approximately $2.1 million at December 31, 2003, the Company has minimized its investment in tax-exempt securities and will continue this trend for the foreseeable future. The following table summarizes the fair value investments portfolio at December 31, 2003 and 2002 (dollars in thousands):

	December 31, 2003	
	Amount	Percent Of Total
Fixed maturities available for sale (1):		
U.S. government and government Agencies and authorities	$16,146	25.0%
State and political subdivisions	547	.8
Industrial and Miscellaneous	7,712	11.9
Mortgage-backed securities	28,950	44.8
Total fixed maturities available for sale	53,355	82.5
Equity securities(2)	10,542	16.3
Short-term investments (3)	761	1.2
Total investments	$64,658	100.0%

(1) Fixed maturities available for sale are carried at fair value. Total cost of fixed maturities was $53,057,097 at December 31, 2003 and $59,872,707 at December 31, 2002.

(2) Equity securities are carried at fair value. Total cost of equity securities was approximately $10,240,559 at December 31, 2003 and $6,700,559 at December 31, 2002.

(3) Short-term investments, consisting primarily of money market instruments maturing within one year are carried at cost which, along with accrued interest, approximates fair value.

The following table sets forth our combined fair value of fixed maturity investment portfolio classified by maturity distribution at December 31, 2003 (dollars in thousands):

December 31, 2

	Amount
Due in (1):	
One year or less	$ 4,754
After one year through five years	12,301
After five years through ten years	3,493
After ten years	3,857
Mortgage-backed securities	28,950
	$53,355

(1) Based on effective maturity dates. Actual maturities may differ because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

The Company's insurance subsidiaries are subject to state laws and regulations that require diversification of its investment portfolio and limit the amount of investments in certain investment categories. Failure to comply with these laws and regulations would cause non-conforming investments to be treated as non-admitted assets for purposes of measuring statutory surplus and, in some instances, would require divestiture. As of December 31, 2003, the Company's investments complied with such laws and regulations.

Investment results for the years ended December 31, 2003, 2002 and 2001 are shown in the following table (dollars in thousands):

	2003	2002	200
Invested assets (1)	$ 95,522	$ 84,358	$ 83,
Investment income (2)	$ 2,669	$ 3,554	$ 4,
Average yield	2.79%	4.21%	4

(1) Average of the aggregate invested amounts at the beginning of the period and at end of each quarter including cash and cash equivalents.

(2) Investment income is net of investment expenses and does not include realized investment gains or losses or provision for income taxes.

In 2003, the interest rate environment decreased led by reduction in U.S. Treasury rates, reflected in the marginal drop in yield. Invested assets are attributable to the net cash flow generated by written premiums, cash collateral and the reinvestment of investment income offset in part by cash used to repay debt, repurchase stock and pay claims.

Derivatives

The Company uses interest rate swaps as a means of hedging exposure to interest rate risk on its long-term debt. To qualify as a hedge, the hedge relationship must be designated and documented at inception and be highly effective in accomplishing the objective of offsetting the changes in cash flows for the risk being hedged. To the extent these derivatives are effective in offsetting the variability of the hedged cash flows, changes in the derivatives' fair value are not be included in current earnings but are reported in accumulated other comprehensive income ("AOCI").

During the year ended December 31, 2004, the amount of losses the Company expects to reclassify from AOCI into interest expense for its cash flow hedges is not significant. To the extent these hedges are not effective, changes in their fair value would be immediately included in earnings.

General Business Factors

During 2003, 2002 and 2001, customers who individually accounted for more than 10% of consolidated construction contracting revenue are as follows; in 2003 - five customers provided 21%, 19%, 15%, 13% and 12% respectively; in 2002 - four customers provided 31%, 26%, 19% and 18%, respectively; in 2001 - three customers provided 33%, 27%, and 20%, respectively. One customer accounted for more than 10% of the United Coastal insurance revenues in 2001. However, in the opinion of the Company's management, no material part of the business of the Company and its subsidiaries is dependent upon a single customer or group of customers, the loss of any one of which would have a materially adverse effect on the Company.

ENVIRONMENTAL COMPLIANCE

The Company does not expect that its compliance with federal, state or local environmental laws or regulations will have any material effect upon its capital expenditures, earnings or competitive position.

EMPLOYEES

As of December 31, 2003, the Company employed approximately 25 persons, all in the United States. None of its current employees are employed subject to collective bargaining agreements. The Company believes that its relations with all of its employees are excellent.

ITEM 2. PROPERTIES

The Company and its subsidiaries occupy a 7 story office building located at 233 Main Street, in New Britain, Connecticut. ACMAT leases approximately 45% of the building to unaffiliated tenants. The office building is suitable and adequate for ACMAT's current and future requirements.

ITEM 3. LEGAL PROCEEDINGS

The Company is a party to legal actions arising in the ordinary course of its business. In management's opinion, the Company has adequate legal defenses respecting those actions where the Company is a defendant, has appropriate insurance reserves recorded, and does not believe that their settlement will materially affect the Company's operations or financial position.

The Company has, together with many other defendants, been named as a defendant in actions brought by injured or deceased individuals or their representatives based on product liability claims relating to materials containing asbestos. No specific claims for monetary damages are asserted in these actions. Although it is early in the litigation process, the Company does not believe that its exposure in connection with these cases is significant.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of 2003.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

ACMAT's Class A Stock trades on the Nasdaq Stock Market under the symbol "ACMTA." The Common Stock trades on the over-the-counter market under the symbol "ACMT." The following table sets forth the quarterly high and low closing prices of the Company's Common Stock and Class A Stock as reported by Nasdaq.

	2003		
	HIGH	LOW	HI
COMMON STOCK			
1st Quarter	10.55	10.30	19.
2nd Quarter	10.38	9.50	19.
3rd Quarter	10.65	10.35	14.
4th Quarter	11.75	10.65	10.
CLASS A STOCK			
1st Quarter	10.31	8.07	9.
2nd Quarter	9.35	7.76	11.
3rd Quarter	12.78	9.20	10.
4th Quarter	12.62	11.34	10.

No dividends have been paid in the past five years and there is no intention of paying dividends in the near future. As of March 1, 2004, there were 351 Common Stock shareholders of record and 554 Class A Stock shareholders of record.

ITEM 6. SELECTED FINANCIAL DATA

	2003	2002	2001	2
Revenues	$ 19,168,648	$ 31,574,097	$ 26,962,807	$ 26,
Total Assets	132,429,857	121,964,763	109,463,456	112,
Long-Term Debt	19,107,293	21,511,921	24,550,361	27,
Stockholders' Equity	42,082,178	40,853,708	37,972,175	37,
Net Earnings	1,613,994	3,156,893	1,706,588	2,
Basic Earnings Per Share	.70	1.33	.70	
Diluted Earnings Per Share	.69	1.32	.68	

Note: No cash dividends were paid during any of the periods above.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations:

Management's discussion and analysis (MD&A) reviews our consolidated and segment financial condition as of December 31, 2003 and 2002, our consolidated results of operations for the periods ended December 31, 2003, 2002 and 2001 and where appropriate, factors that may affect our future financial performance. The MD&A should be read in conjunction with the consolidated financial statements of the Company and related notes included elsewhere in this Form 10K.

Forward-Looking Statement Disclosure and Certain Risks

This report contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are statements other than historical information or statements of current condition. Words such as "expects", "anticipates", "intends", "plans", "believes", "seeks", or "estimates", or variations of such words, and similar expressions are intended to identify forward-looking statements.

In light of the risks and uncertainties inherent in future projections, many of which are beyond our control, actual results could differ materially from those in forward-looking statements. These statements should not be regarded as a representation that anticipated events will occur or that expected objectives will be achieved. Risks and uncertainties include, but are not limited to, the following:

- Changes in the demand for, pricing of, or supply of our products;
- General economic conditions, including changes in interest rates and the performance of financial markets;
- Additional statement of earnings charges if our loss reserves are insufficient;
- The possibility that claims cost trends that we anticipate in our businesses may not develop as we expect;
- The possibility of downgrades in our ratings significantly adversely affecting us, including, but not limited to, reducing the number of insurance policies we write, generally, or causing clients who require an insurer with a certain rating level to use higher-rated insurers;
- The risk that our subsidiaries may be unable to pay dividends to us in sufficient amounts to enable us to meet our obligations;
- The cyclicality of the property-liability insurance industry causing fluctuations in our results.

EXECUTIVE SUMMARY:

2003 Consolidated Results of Operations:

- Net earnings of $1,613,994, or $.70 per share basic and $.69 per share diluted.

- Written premiums increased 75% over prior year.
- Favorable rate environment and improved loss trends.
- Decreased interest income offset by decreased interest expense.
- Construction contract revenues down significantly, however, resulting in a gross profit of 2.9%.
- No net life insurance proceeds in 2003 compared to $3.3 million in 2002.
- No tax benefit in 2003 compared to a benefit of $2.5 million in 2002.

2003 Financial Condition:

- Total assets of $132.4 million, up $10.5 million from the prior year.
- Total cash and invested assets of $102.3 million, up $13.8 million from the prior year.
- Stockholders' Equity of $42.1 million, up $1.2 million from the prior year.
- Total debt reduced to $19.1 million from $21.5 million.
- Cash flow provided from operations of $17.4 million, up from $11.6 million

CONSOLIDATED OVERVIEW:

	2003	2002
Net Earnings	$1,613,994	3,156,8
Basic Earnings Per Share	$ .70	1.
Diluted Earnings Per Share	$ .69	1.

The Company's discussions related to all items, other than net earnings, are presented on a pretax basis, unless otherwise noted.

Net earnings were $1,613,994 or $.70 per share basic and $.69 per share diluted in 2003 compared to $3,156,893 or $1.33 per share basic and $1.32 per share diluted in 2002. The decrease in net earnings for 2003 compared to 2002 is primarily due to the absence of a one-time benefit from life insurance proceeds, net of related obligations, and the related tax benefits due to the death of the former Chairman and President of the Company in 2002. Net earnings for 2003 reflected the continuing favorable rate environment and lower unfavorable prior year loss development. Construction contracting revenues exceeded the cost of the construction contracts by $83,680 in 2003 compared to contract costs exceeding contract revenues by ($2,050,208) in 2002 due to additional remediation expenses incurred on a construction project that significantly exceeded the original estimate. Investment income was $2,668,940 in 2003 compared to $3,553,565 in 2002 and was offset by the decrease in interest expense of $1,059,974 in 2003 from $1,928,084 in 2002. Realized capital gains were $361,542 in 2003 compared to $25,971 in 2002.

Net earnings were $3,156,893 or $1.33 per share basic and $1.32 per share diluted in 2002 compared to $1,706,588 or $.70 per share basic and $.68 per share diluted in 2001. The increase in net earnings for 2002 compared to 2001 is primarily due to the one-time benefit from life insurance proceeds, net of related obligations, and the related tax benefits due to the death of the former Chairman and President of the Company in 2002. Construction contracting costs exceeded contract revenues by ($2,050,208) in 2002 compared to contract revenues exceeding the cost of the construction contracts by $891,821 in 2001 due to additional remediation expenses incurred on a construction project that significantly exceeded the original estimate in 2002. Net earnings in 2002 also reflect an increase to loss reserves due to two large losses reported in current year. Investment income was $3,553,565 in 2002 compared to $4,031,793 in 2001 and was offset by the decrease in interest expense of $1,928,084 in 2002 from $2,723,052 in 2001. Realized capital gains were $25,971 in 2002 compared to $374,301 in 2001.

Consolidated revenues were as follows:

	2003	2002
Contract revenues	$ 2,982,197	16,289,326
Earned premium	12,270,916	7,571,725
Investment income	2,668,940	3,553,565
Net realized capital gains	361,542	25,971
Life insurance proceeds, net	---	3,348,903
Other income	885,053	784,607
Consolidated revenues	$ 19,168,648	31,574,097

Total consolidated revenues decreased $12,405,449 or 39% in 2003 and increased $4,611,290 or 17% in 2002.

Contract revenues decreased $13,307,129 or 82% in 2003 due primarily to the timing of three large projects that were completed in 2002. The significant decrease in contract revenues in 2003 reflects the impact of a significant number of contractors competing for a limited number of projects available in our market place. Contract revenues increased $2,214,448 or 16% in 2002 due to the timing of three large projects in 2002. Contract revenue depends greatly on the successful securement of contracts bid and execution. The backlog at December 31, 2003 was $9,680,000 compared to $430,000 at December 31, 2002. The significant increase in backlog reflects the four contracts successfully bid during 2003.

Earned premiums increased $4,699,191 or 62% in 2003 due to a 75% increase in net written premiums in ACSTAR Bonding primarily due to a growth in new business and strong customer retention and a 76% increase in net written premiums in United Coastal liability insurance business due primarily to significant rate increases on new and renewal business and strong customer retention. Earned premium was flat in 2002 compared to 2001 reflecting the Company's strategy to selectively underwrite during uncertain economic times and unfavorable pricing in the casualty insurance market.

Investment income decreased $884,625 or 25% in 2003 despite higher average invested assets resulting from strong cash flows from operations. The decline resulted from a reduction in investment yields to 2.79% in 2003 from 4.21% in 2002. The decrease in yield reflected the lower interest rate environment and the short duration of the Company's portfolio partially offset by the sale of most of the tax-exempt investments during 2003. Investment income decreased $478,228 or 12% in 2002 despite average invested assets remaining relatively flat. The decline resulted from a reduction in investment yields to 4.21% in 2002 from 4.83% in 2001. The decrease in yield reflected the lower interest rate environment and the short duration of the Company's portfolio.

Net realized capital gains were $361,542 in 2003 compared to $25,971 in 2002. During 2003, the Company sold most of its tax-exempt investments in order to accelerate the use of an alternative minimum tax credit carryforward generated with the recognition of net life insurance proceeds in 2002 that were exempt for income tax purposes. Net realized gains of $374,301 were generated in 2001 as a result of selling primarily fixed maturity investments.

Life insurance proceeds 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 increased $100,446 in 2003 due primarily to increased fees related to funds administration services income offset in part by a decrease in rental income. Other income decreased $115,952 in 2002 primarily due to a decrease in funds administration services income in 2002. Other revenues consist primarily of rental income and funds administration fees charged to bonding customers.

Consolidated expenses were as follows:

	2003	2002
Cost of contract revenues	$ 2,898,517	18,339,534
Losses and loss adjustment expenses	4,993,991	4,071,399
Amortization of policy acquisition costs	2,346,902	1,753,553
General and Administrative expenses	5,341,416	4,856,068
Interest expense	1,059,974	1,928,084
	$ 16,640,800	30,948,638

Consolidated expenses decreased $14,307,838 or 46% in 2003 and increased $6,599,776 or 27% in 2002.

Cost of contract revenues decreased $15,441,017 or 84% in 2003 primarily due to the 82% decrease in contract revenues in 2003 due to the timing of three large projects that were completed in 2002. The gross profit margin on construction projects improved to 2.9% in 2003 compared to a gross loss margin of (12.6%) in

2002. The Company incurred additional remediation expenses on a construction project in 2002 that significantly exceeded the original estimate. Cost of contract revenues increased $5,156,477 or 39% in 2002 due primarily to the 15.7% increase in contract revenues in 2002 due to the timing of three large projects that were completed in 2002. The gross profit (loss) margin on construction projects was (12.6%) in 2002 compared to a gross profit margin of 6.3% in 2001. Gross margins fluctuate each year based upon the profitability of specific projects.

Losses and loss adjustment expenses increased $922,592 or 23% in 2003 primarily due to the 62% increase in earned premiums primarily offset by lower adverse development. Losses and loss adjustment expenses increased $2,535,377 or 165% in 2002 primarily due to the strengthening of loss reserves due to adverse

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development in prior accident years. The Company strengthened reserves by a net amount of $750,000 in 2003 and $2,200,000 in 2002.

Amortization of policy acquisition costs increased $593,349 or 34% in 2003 primarily due to the increase in earned premiums offset in part by a decrease in commissions rate. Amortization of policy acquisition costs decreased $296,393 or 14% in 2002 primarily due to the decrease in commission rates for agents and a slight decrease in earned premiums.

General and administrative expenses increased $485,348 or 10% in 2003 primarily due to an increase in salary expense. General and administrative expenses remained relatively unchanged in 2002 primarily due to a decrease in amortization of intangibles offset by an increase in bad debt expense.

Interest expense decreased $868,110 or 45% in 2003 and $794,968 or 29% in 2002 primarily 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.

The Company's effective tax rate was 36.2%, (404.7%) and 34.7% in 2003, 2002 and 2001, respectively. The 2003 increase in the effective tax rate reflected the elimination of tax-exempt investments in 2003 and the one-time recognition of net life insurance proceeds during 2002 that were exempt for income tax purposes. The 2002 decrease in effective tax rate reflected the one-time recognition of net life insurance proceeds of several key-man life insurance policies as well as the effect of tax-exempt investments.

Results of Operations by Segment:

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

Operating earnings for ACMAT contracting are operating revenues less cost of contract revenues and identifiable 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.

ACSTAR BONDING:	2003	2002	2001
Operating Earnings	$2,631,790	$1,217,718	$2,098,548
GAAP Combined Ratio	79.6%	103.5%	85.0%

Operating earnings for the ACSTAR Bonding segment increased $1,414,072 or 116% in 2003. The operating earnings in 2003 benefited from a 64% increase in earned premiums and a 23.9 point improvement in the GAAP combined ratio in 2003. Operating earnings decreased $880,830 or 42% in 2002. The decrease in 2002 operating earnings reflect the addition of $500,000, net of recoveries, to loss reserves for a large loss reported in current year, flat revenue from earned premiums and a decrease in investment income and realized capital gains.

The decrease in the 2003 GAAP combined ratio is due to the absence of large losses reported in the 2002 loss year and improved expense management. In addition, prior year favorable development is significantly lower due to actual loss experience being closer to estimates. The increase in the 2002 GAAP combined ratio results primarily from a large loss of approximately $500,000 reported in 2002.

ACSTAR Bonding revenues were as follows:

	2003	2002	2001
Earned premium	$ 6,578,324	4,001,183	3,808,737
Investment income	1,177,091	1,451,169	1,560,080
Net realized capital gains	272,565	5,737	191,670
Other income (expense)	(160,636)	(97,218)	(72,804)
	$ 7,867,344	5,360,871	5,487,683

Revenues increased $2,506,473 or 47% in 2003 and decreased $126,812 or 2% in 2002.

Earned premiums increased $2,577,141 or 64% in 2003 due to a 75% increase in net written premiums primarily due to a growth in new business and strong customer retention. Earned premiums increased $192,446 or 5% in 2002 due to a 24% increase in written premiums reflecting the impact of a favorable insurance rate market. Beginning in 2002, ACSTAR has experienced a significant increase in business opportunities that meet ACSTAR's underwriting standards.

Investment income decreased $274,078 or 19% in 2003 despite higher average invested assets resulting from strong cash flows from operations. The decline resulted from a reduction in investment yields to 2.2% in 2003 from 3.3% in 2002. The decrease in yield reflected the lower interest rate environment and the short duration of the Company's portfolio partially offset by the sale of most of the tax-exempt investments during 2003. Investment income decreased

$108,911 or 7% in 2002 despite average invested assets remaining relatively flat. The decline resulted from a reduction in investment yields to 3.3% in 2002 from 4.0% in 2001. The decrease in yield reflected the lower interest rate environment and the short duration of the Company's portfolio.

Net realized capital gains were $272,565 in 2003 compared to $5,737 in 2002. During 2003, the Company sold most of its tax-exempt investments in order to accelerate the use of an alternative minimum tax credit carryforward generated with the recognition of net life insurance proceeds by the parent company in 2002 that were exempt for income tax purposes. Net realized gains of $191,670 were generated in 2001 as a result of selling primarily fixed maturity investments.

Other income (expense) relates primarily to fees related to funds administration services. Funds administration fees charged to bonding customers for administering payments to subcontractors and venders fluctuates depending on the terms and conditions offered and accepted for the bonding programs each year.

ACSTAR Bonding expenses were as follows:

	2003	2002
Losses and loss adjustment expenses	$ 1,966,955	1,300,237
Amortization of policy acquisition costs	2,136,115	1,564,398
General and administrative expenses	1,132,484	1,278,518
	$ 5,235,554	4,143,153

Expenses increased $1,092,401 or 26% in 2003 and $754,018 or 22% in 2002.

Losses and loss adjustment expenses increased $666,718 or 51% in 2003 primarily due to the 64% increase in earned premiums offset in part by a 23.9 point decrease in the GAAP combined ratio for 2003. The improvement in the GAAP combined ratio for 2003 is the result of improved loss experience and an increase in earned premium. Losses and loss adjustment expenses increased $895,977 or 222% in 2002 primarily due to the strengthening of loss reserves due to adverse development in prior years. During 2002, the Company increased reserves by $500,000, net of recoveries, due to a large loss reported in current year.

Amortization of policy acquisition costs increased $571,717 or 37% in 2003 primarily due to the increase in earned premiums offset in part by a decrease in commissions paid. Amortization of policy acquisition costs decreased $36,979 or 2% in 2002 primarily attributable to a decrease in the average commissions paid to agents offset in part by the increase in 2002 earned premiums.

General and administrative expenses decreased $146,034 or 11% in 2003 primarily due to a decrease in rental expense and depreciation expense. General and administrative expenses decreased by $104,980 or 8% in 2002 due primarily to no further amortization expense related to intangibles and a one-time rent recovery from an affiliate.

UNITED COASTAL LIABILITY INSURANCE:

	2003	2002
Operating Earnings	$1,414,416	$ 677,349
GAAP Combined Ratio	100.3%	133.9%

Operating earnings for the United Coastal Liability Insurance segment increased $737,067 or 109% in 2003. The operating earnings in 2003 benefited from a 59% increase in earned premiums and a 33.6 point improvement in the GAAP combined ratio in 2003. Operating earnings decreased $2,132,651 or 76% in 2002. The decrease in 2002 operating earnings is attributable to a large loss of approximately $1,700,000 reported in 2002, decreased premiums and investment income.

The decrease in the 2003 GAAP combined ratio is due to the absence of large losses reported in the 2002 loss year and improved expense management. In addition, prior year favorable development is significantly lower due to actual loss experience being closer to estimates. The increase in the 2002 GAAP combined ratio results primarily from a large loss of approximately $1,700,000 reported in 2002.

United Coastal Liability Insurance revenues were as follows:

	2003	2002
Earned premium	$5,692,592	3,570,542
Investment income	1,271,612	1,845,179
Net realized capital gains	88,977	20,234
Other income	68,454	22,418
Consolidated revenues	$7,121,635	5,458,373

Revenues increased $1,663,262 or 30% in 2003 and decreased $905,019 or 14% in 2002.

Earned premiums increased $2,122,050 or 59% in 2003 due to a 76% increase in net written premiums primarily due to significant rate increases on new and renewal business and strong customer retention. Earned premiums decreased $201,997 or 5% in 2002 despite a 17% increase in written premiums reflecting the impact and timing of a favorable insurance rate market.

Investment income decreased $573,567 or 31% in 2003 despite higher average invested assets resulting from strong cash flows from operations. The decline resulted from a reduction in investment yields to 3.6% in 2003 from 4.8% in 2002. The decrease in yield reflected the lower interest rate environment and the short duration of the Company's portfolio partially offset by the sale of most of the tax-exempt investments during 2003. Investment income decreased $540,198 or 23% in 2002 despite average invested assets remaining relatively flat. The decline resulted from a reduction in investment yields to 4.8% in 2002 from 5.4% in 2001. The decrease in yield reflected the lower interest rate environment and the short duration of the Company's portfolio.

Net realized capital gains were $88,977 in 2003 compared to $20,234 in 2002. During 2003, the Company sold most of its tax-exempt investments in order to accelerate the use of an alternative minimum tax credit carryforward generated with the recognition of net life insurance proceeds by the parent company in 2002 that were exempt for income tax purposes. Net realized gains of $182,631 were generated in 2001 as a result of selling primarily fixed maturity investments.

United Coastal Liability Insurance expenses were as follows:

	2003	2002
Losses and loss adjustment expenses	$ 3,027,036	2,771,162
Amortization of policy acquisition costs	1,555,151	951,023
General and administrative expenses	1,125,032	1,058,839
	$ 5,707,219	4,781,024

Expenses increased $926,195 or 19% in 2003 and $1,227,632 or 35% in 2002.

Losses and loss adjustment expenses increased $255,874 or 9% in 2003 primarily due to the 59% increase in earned premiums offset in part by a 33.6 point decrease in the GAAP combined ratio for 2003. Losses and loss adjustment expenses increased $1,639,400 or 145% in 2002 primarily due to the strengthening of loss reserves due to adverse development in prior years. During 2002, the Company increased reserves by $1,700,000 due to a large loss reported in current year.

Amortization of policy acquisition costs increased $604,128 or 64% in 2003 primarily due to the 59% increase in earned premiums. Amortization of policy acquisition costs decreased $335,386 or 26% in 2002 primarily attributable to a decrease in earned premiums and the significant reduction in ceded premiums.

General and administrative expenses increased $66,193 or 6% in 2003 primarily due to an increase in bad debt expense and salary expense offset in part by a decrease in rental expense. General and administrative expenses decreased by $76,382 or 7% in 2002 due primarily to a reduction in rent expense from a one-time rent recovery from an affiliate.

ACMAT CONTRACTING:	2003	2002
Operating Earnings (Loss)	$(458,384)	$(2,690,427)

Operating earnings for the ACMAT Contracting segment improved $2,232,043 or 83% in 2003. The gross profit margin on construction projects improved to 2.8% in 2003 compared to a gross loss margin of (12.6%) in 2002. The Company incurred additional remediation expenses on a construction project in 2002 that significantly exceeded the original estimate. However, the gross profit margin of 2.8% in 2003 was not sufficient to cover the fixed costs in ACMAT Contracting resulting in an operating loss of $458,384. The Company expects future gross margins to be sufficient to cover fixed costs in 2004. The gross profit (loss) margin on construction projects was (12.6%) in 2002 compared to a gross profit margin of 6.2% in 2001. Gross margins fluctuate each year based upon the profitability of specific projects.

ACMAT Contracting revenues were as follows:

	2003	2002
Contract revenues	$2,982,197	16,289,326
Investment income, net	10,388	91,811
Inter-segment revenue:		
Rental income	768,146	1,286,000
Underwriting services and agency commissions	1,905,811	1,131,857
Other income	977,234	859,407
	$6,643,777	19,658,401

Contract revenues decreased $13,307,129 or 82% in 2003 due primarily to the timing of three large projects that were completed in 2002. The significant decrease in contract revenues in 2003 reflects the affect of a significant number of contractors competing for a limited number of projects available in our market place. Contract revenues increased $2,214,448 or 16% in 2002 due to the timing of three large projects in 2002. Contract revenue depends greatly on the successful securement of contracts bid and execution. The backlog at December 31, 2003 was $9,680,000 compared to $430,000 at December 31, 2002. The significant increase in backlog reflects four contracts successfully bid during 2003.

Inter-segment revenues consists primarily of rental income and underwriting services fees and agency commissions. Rental income decreased $517,854 or 40% in 2003 as a result of a reduction in rent charged to ACSTAR and United Coastal effective January 1, 2003. Rental income increased $8,206 or 1% in 2002 primarily due to a slight increase in operating expense increases related to the rental property.

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Underwriting services fees and agency commissions increased $773,954 or 68% in 2003 due primarily to a 76% increase in net written premiums. Underwriting services fees and agency commissions decreased $60,615 or 5% in 2002 due primarily to the timing of premiums written.

Other income consists primarily of rental income and varies depending on the timing of tenants and their leases. Other income increased $117,827 or 14% in 2003 and decreased $91,111 or 10% in 2002.

ACMAT Contracting expenses were as follows:

	2003	2002

	-----	-----
Cost of contract revenues	$2,898,517	18,339,534
General and administrative expenses	4,203,644	4,009,294
	----------	----------
	$7,102,161	22,348,828
	==========	==========

Expenses decreased $15,246,667 or 68% in 2003 and $5,720,835 or 34% in 2002.

Cost of contract revenues decreased $15,441,017 or 84% in 2003 primarily due to the 82% decrease in contract revenues in 2003 due to the timing of three large projects that were completed in 2002. The gross profit margin on construction projects improved to 2.9% in 2003 compared to a gross loss margin of (12.6%) in 2002. The Company incurred additional remediation expenses on a construction project in 2002 that significantly exceeded the original estimate. Cost of contract revenues increased $5,156,477 or 39% in 2002 due primarily to the 39% increase in contract revenues in 2002 due to the timing of three large projects that were completed in 2002. The gross profit (loss) margin on construction projects was (12.6%) in 2002 compared to a gross profit margin of 6.3% in 2001. Gross margins fluctuate each year based upon the profitability of specific projects.

General and administrative expenses increased $194,350 or 5% in 2003 primarily due to an increase in salary expense offset in part by a decrease in bad debt expense, rental expense and amortization of intangibles. General and administrative expenses increased by $564,358 or 16% in 2002 due primarily an increase in bad debt expense and a one-time return of rental income to affiliates collected on their behalf offset in part by a decrease in salary expense in 2002.

CRITICAL ACCOUNTING ESTIMATES

The Company considers its most significant accounting estimates to be those applied to reserves for losses and loss adjustment expenses and revenue recognition on construction projects using the percentage of completion method.

Reserves for losses and loss adjustment expenses were $20,848,566 at December 31, 2003. The Company maintains reserves to cover estimated ultimate unpaid liability for losses and loss adjustment expenses with respect to both reported and incurred but not reported claims for insured risks incurred as of the end of each accounting period. 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.

Management believes that the reserves for losses and loss adjustment expenses at December 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 claims reporting patterns, past 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.

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.

LIQUIDITY AND CAPITAL RESOURCES:

The Company internally generates sufficient funds for its current 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 12 months.

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 serve its indebtedness. ACMAT has relied on dividends from its insurance subsidiaries to repay debt.

The Company realized cash flow from operations in the amount of $17,393,270 in 2003, $11,615,814 in 2002 and $1,465,272 in 2001. The cash flow from operations is due primarily to the increase of cash collateral. Substantially all of the Company's cash flow is 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 was $4,140,298 in 2003 compared to net cash used for investing activities of $1,918,242 in 2002 and to net cash provided by investing activities was $8,821,721 in 2001.

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 all of these covenants at December 31, 2003.

The Company maintains a short-term unsecured bank credit line of $10 million to fund interim cash requirements. There were no borrowings outstanding under this line of credit as of December 31, 2003.

During 2003, the Company purchased, in the open market and privately negotiated transactions, 13,700 shares of its Class A Stock at an average price of $8.89. During 2003, the Company also purchased 4,000 shares of its Common Stock at an average price of $10.93.

The Company's principal source of cash for repayment of long-term debt is dividends from its two insurance companies. During 2003, ACMAT received $2,990,000 as dividends from its subsidiaries. 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. For 2004, the amount of dividends ACMAT's insurance subsidiaries may pay, without prior approval of their domestic state insurance departments, is limited to approximately $3,920,000.

In 2004, the Company anticipates that internally generated funds will be utilized for repayment of long-term debt. Principal repayments on long-term debt is scheduled to be $2,708,396 in 2004.

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

CONTRACTUAL CASH OBLIGATIONS AND COMMITMENTS:

Contractual obligations at December 31, 2003 include the following:

	Payment due by Period		
	Total	Less than 1 Year	1 to 3 Years
Long-Term Debt (principal)	$19,107,293	2,708,396	5,091,305

The Company also has cash collateral of $41,718,225 at December 31, 2003 which it would be required to return at the end of expiration of applicable bond period subject to any claims.

ITEM 7A. QUANTATATIVE AND QUALITATIVE DISCUSSIONS ABOUT MARKET RISK:

MARKET RISK

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, foreign currency exchange rates, and other relevant market rate or price changes. Market risk is directly influenced by the volatility and liquidity in the markets in which the related underlying assets are traded. The following is a discussion of the Company's primary market risk exposures and how those exposures are currently managed as of December 31, 2003. The Company's market risk sensitive instruments are entered into for purposes other than trading.

The carrying value of the Company's investment portfolio as of December 31, 2003 was $64,657,599, 83% of which is invested in fixed maturity securities. The primary market risk to the investment portfolio is interest rate risk associated with investments in fixed maturity securities. The Company's exposure to equity price risk and foreign exchange risk is not significant. The Company has no direct commodity risk.

For the Company's investment portfolio, there were no significant changes in the Company's primary market risk exposures or in how those exposures are managed compared to the year December 31, 2003. The Company does not anticipate significant changes in the Company's primary market risk exposures or in how those exposures are managed in future reporting periods based upon what is known or expected to be in effect in future reporting periods.

The primary market risk for all of the Company's long-term debt is interest rate risk at the time of refinancing. As the majority of the Company's debt is fixed rate debt, the Company's exposure to interest rate risk on its long-term debt is not significant. The Company continually monitors the interest rate environment and evaluates refinancing opportunities as the maturity dates approach. In addition, the Company uses interest rate swaps as a means of hedging exposure to interest rate risk on its long-term debt. The Company does not hold or issue derivative instruments for trading purposes.

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SENSITIVITY ANALYSIS

Sensitivity analysis is defined as the measurement of potential loss in future earnings, fair values or cash flows of market sensitive instruments resulting from one or more selected hypothetical changes in interest rates and other market rates or prices over a selected time. In the Company's sensitivity analysis model, a hypothetical change in market rates is selected that is expected to reflect reasonably possible near-term changes in those rates. The term "near term" means a period of time going forward up to one year from the date of the consolidated financial statements. Actual results may differ from the hypothetical change in market rates assumed in this disclosure, especially since this sensitivity analysis does not reflect the results of any action that would be taken by us to mitigate such hypothetical losses in fair value.

In this sensitivity analysis model, the Company uses fair values to measure its potential loss. The sensitivity analysis model includes the following financial instruments: fixed maturities, interest-bearing non-redeemable preferred stocks, short-term securities, cash, investment income accrued, and long-term debt. The primary market risk to the Company's market sensitive instruments is interest rate risk. The sensitivity analysis model uses a 100 basis point change in interest rates to measure the hypothetical change in fair value of financial instruments included in the model.

For invested assets, duration modeling is used to calculate changes in fair values. Durations on invested assets are adjusted for call, put and interest rate reset features. Duration on tax exempt securities is adjusted for the fact that the yield on such securities is less sensitive to changes in interest rates compared to Treasury securities. Invested asset portfolio durations are calculated on a market value weighted basis, including accrued investment income, using holdings as of December 31, 2003.

The sensitivity analysis model used by the Company produces a loss in fair value of market sensitive instruments of $2.1 million based on a 100 basis point increase in interest rates as of December 31, 2003, which is not considered material. This loss value only reflects the impact of an interest rate increase on the fair value of the Company's financial instruments, which constitute approximately 49% of total assets. As a result, the loss value excludes a significant portion of the Company's consolidated balance sheet which would partially mitigate the impact of the loss in fair value associated with a 100 basis point increase in interest rates.

For example, certain non-financial instruments, primarily insurance accounts for which the fixed maturity portfolio's primary purpose is to fund future claims payments related thereto, are not reflected in the development of the above loss value. These non-financial instruments include premium balances receivable, reinsurance recoverables, claims and claim adjustment expense reserves and unearned premium reserves. Forward-looking information contained in this report is subject to risk and uncertainty.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Consolidated Financial Statements and Schedules

ACMAT Corporation and Subsidiaries:

The following Consolidated Financial Statements of the Company, related notes and Independent Auditors' Report are included herein:

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
ACMAT Corporation:

We have audited the consolidated financial statements of ACMAT Corporation and subsidiaries as listed in the accompanying index. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedules as listed in the accompanying index. These consolidated financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ACMAT Corporation and subsidiaries as of December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for goodwill and other intangible assets in 2002.

/s/ KPMG LLP

Hartford, Connecticut
March 12, 2004

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ACMAT CORPORATION AND SUBSIDIARIES

Consolidated Statements of Earnings
Years Ended December 31, 2003, 2002 and 2001

	2003	2002

Contract revenues	$ 2,982,197	16,289,326
Earned premiums	12,270,916	7,571,725
Investment income, net	2,668,940	3,553,565
Net realized capital gains	361,542	25,971
Life insurance proceeds, net	--	3,348,903
Other income	885,053	784,607
	19,168,648	31,574,097
Cost of contract revenues	2,898,517	18,339,534
Losses and loss adjustment expenses	4,993,991	4,071,399
Amortization of policy acquisition costs	2,346,902	1,753,553
General and administrative expenses	5,341,416	4,856,068
Interest expense	1,059,974	1,928,084
	16,640,800	30,948,638
Earnings before income taxes	2,527,848	625,459
Income taxes (benefits)	913,854	(2,531,434)
Net earnings	$ 1,613,994	3,156,893
Basic earnings per share	$ .70	1.33
Diluted earnings per share	$ .69	1.32

See Notes to Consolidated Financial Statements.

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ACMAT CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets
December 31, 2003 and 2002

ASSETS	2003
Investments:	
Fixed maturities - available for sale at fair value (Cost of $53,057,097 in 2003 and $59,872,707 in 2002)	$ 53,355,212
Equity securities - available for sale at fair value (Cost of $10,240,559 in 2003 and $6,700,559 in 2002)	10,541,515
Short-term investments, at cost which approximates fair value	760,872
Total Investments	64,657,599
Cash and cash equivalents	37,687,994
Accrued interest receivable	341,451
Receivables, net of allowance for doubtful accounts of $302,606 in 2003 and $345,143 in 2002	2,222,971

Reinsurance recoverable:	
Unpaid losses	4,376,220
Paid losses	2,327,436
Prepaid expenses	210,127
Income tax receivable	330,883
Deferred income taxes	2,155,028
Property and equipment, net	11,195,363
Deferred policy acquisition costs	1,639,325
Other assets	3,365,100
Intangibles	1,920,360
Total Assets	$132,429,857
Liabilities & Stockholders' Equity	
Accounts payable	848,427
Reserves for losses and loss adjustment expenses	20,848,566
Unearned premiums	6,357,447
Collateral held	41,718,225
Other accrued liabilities	1,467,721
Long-term debt	19,107,293
Total Liabilities	90,347,679
Stockholders' Equity:	
Common Stock (No par value; 3,500,000 shares authorized; 549,355 and 553,355 shares issued and outstanding)	549,355
Class A Stock (No par value; 10,000,000 shares authorized; 1,742,705 and 1,756,405 shares issued and outstanding)	1,742,705
Retained earnings	39,438,778
Accumulated other comprehensive income	351,340
Total Stockholders' Equity	42,082,178
	$132,429,857

See Notes to Consolidated Financial Statements.

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ACMAT CORPORATION AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity
December 31, 2003, 2002 and 2001

	Common Stock par value	Class A Stock par value	Additional paid-in capital	Ret ear
Balance as of December 31, 2000	$ 557,589	2,057,254	---	35,3
Comprehensive income:				
Net unrealized appreciation of debt and				

equity securities, net of reclassification adjustment	---	---	---	
Net earnings	---	---	---	1,7
Total comprehensive income				
Acquisition and retirement of 234,235 shares of Class A Stock	---	(234,235)	(20,000)	(1,5
Issuance of 4,000 shares of Class A Stock pursuant to stock options	---	4,000	20,000	
Balance as of December 31, 2001	$ 557,589	1,827,019	---	35,4
Comprehensive income:				
Net unrealized appreciation of debt and equity securities, net of reclassification adjustment	---	---	---	
Net unrealized loss on derivatives qualifying as hedges	---	---	---	
Net earnings	---	---	---	3,1
Total comprehensive income				
Acquisition and retirement of 4,234 shares of Common Stock	(4,234)	---	---	(
Acquisition and retirement of 78,114 shares of Class A Stock	---	(78,114)	---	(6
Issuance of 7,500 shares of Class A Stock pursuant to stock options	---	7,500	---	
Balance as of December 31, 2002	$ 553,355	1,756,405	---	37,9
Comprehensive income:				
Net unrealized loss on debt and equity securities, net of reclassification adjustment	---	---	---	
Net unrealized gain on derivatives qualifying as hedges	---	---	---	
Net earnings	---	---	---	1,6
Total comprehensive income				
Acquisition and retirement of 4,000 shares of Common Stock	(4,000)	---	---	(
Acquisition and retirement of 13,700 shares of Class A Stock	---	(13,700)	---	(1
Balance of December 31, 2003	$ 549,355	1,742,705	---	39,4

	Accumulated other comprehensive income (loss)	Total stockholders' equity
Balance as of December 31, 2000	(457,483)	37,483,665
Comprehensive income:		
Net unrealized appreciation of debt and equity securities, net of reclassification		

adjustment	584,824	584,824
Net earnings	---	1,706,588
Total comprehensive income		2,291,412
Acquisition and retirement of 234,235 shares of Class A Stock	---	(1,826,902)
Issuance of 4,000 shares of Class A Stock pursuant to stock options	---	24,000
Balance as of December 31, 2001	127,341	37,972,175
Comprehensive income:		
Net unrealized appreciation of debt and equity securities, net of reclassification adjustment	561,159	561,159
Net unrealized loss on derivatives qualifying as hedges	(117,142)	(117,142)
Net earnings	---	3,156,893
Total comprehensive income		3,600,910
Acquisition and retirement of 4,234 shares of Common Stock	---	(80,489)
Acquisition and retirement of 78,114 shares of Class A Stock	---	(693,263)
Issuance of 7,500 shares of Class A Stock pursuant to stock options	---	54,375
Balance as of December 31, 2002	571,358	40,853,708
Comprehensive income:		
Net unrealized loss on debt and equity securities, net of reclassification adjustment	(293,115)	(293,115)
Net unrealized gain on derivatives qualifying as hedges	73,097	73,097
Net earnings	---	1,613,994
Total comprehensive income		1,393,976
Acquisition and retirement of 4,000 shares of Common Stock	---	(43,700)
Acquisition and retirement of 13,700 shares of Class A Stock	---	(121,806)
Balance of December 31, 2003	351,340	42,082,178

See Notes to Consolidated Financial Statements.

ACMAT CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows
Years ended December 31, 2003, 2002 and 2001

	2003
Cash Flows From Operating Activities:	
Net earnings	$ 1,613,994
Adjustments to reconcile net earnings to net cash provided by (used for) operating activities:	
Depreciation and amortization	1,396,716
Net realized capital gains	(361,542)
Deferred income taxes	484,554
Changes In:	
Accrued interest receivable	111,273
Receivables, net	357,075
Reinsurance recoverable	1,680,238
Deferred policy acquisition costs	(368,656)
Prepaid expenses and other assets	636,695
Accounts payable and other liabilities	(915,785)
Collateral held	15,727,180
Reserves for losses and loss adjustment expenses	(4,794,299)
Income taxes	128,574
Unearned premiums	1,697,253
Net cash provided by operating activities	17,393,270
Cash Flows From Investing Activities:	
Proceeds from investments sold or matured:	
Fixed maturities - sold	7,652,707
Fixed maturities - matured	35,304,460
Equity securities	5,711,774
Mortgages	---
Purchases Of:	
Fixed maturities	(36,601,408)
Equity securities	(9,115,599)
Short-term investments, (purchases) sales, net	1,372,094
Capital expenditures	(183,730)
Net cash provided by (used for) investing activities	4,140,298
Cash Flows From Financing Activities:	
Repayments on long-term debt	(2,404,628)
Issuance of long-term debt	---
Issuance of Class A Stock	---
Payments for acquisition and retirement of stock	(165,506)
Net cash used for financing activities	(2,570,134)
Net change in cash and cash equivalents	18,963,434
Cash and cash equivalents, beginning of year	18,724,560
Cash and cash equivalents, end of year	$ 37,687,994

See Notes to Consolidated Financial Statements.

ACMAT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2003, 2002 AND 2001

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Consolidation

The consolidated financial statements include ACMAT Corporation ("ACMAT" or the "Company"), its subsidiaries, including AMINS, Inc., ACSTAR Holdings, Inc. ("ACSTAR Holdings") and ACSTAR Holdings' wholly-owned subsidiary, ACSTAR Insurance Company ("ACSTAR"); and United Coastal Insurance Company ("United Coastal Insurance").

These consolidated financial statements have been prepared in conformity with accounting principles generally accepted ("GAAP") in the United States of America. All significant intercompany accounts and transactions have been eliminated in consolidation.

Certain reclassifications have been made to prior years financial statements to conform to the current year presentation.

(b) Business

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-seven 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 provides specialty general, environmental and professional liability insurance primarily to general contractors, specialty trade and environmental contractors, property owners, storage and treatment facilities and allied professionals. United Coastal also offers products liability policies to manufacturers. In addition, the company offers professional liability coverage to architects, consultants and engineers.

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

During 2003, 2002 and 2001, customers who individually accounted for more than 10% of consolidated construction contracting revenue are as follows; in 2003 - five customers provided 21%, 19%, 15%, 13% and 12%, respectively; in 2002 - four customers provided 31%, 26%, 19% and 18%, respectively; and in 2001 - three customers provided 33%, 27%, and 20%, respectively. One customer accounted for more than 10% of the United Coastal insurance revenues in 2001.

(c) Investments

Fixed maturities include bonds, notes and redeemable preferred stocks. Equity securities reflect investment in common stock, non-redeemable preferred stock and mutual funds.

Investments are classified as "available for sale" and are reported at fair value, with unrealized gains or losses, net of tax, charged or credited directly to stockholders' equity.

The fair value of investment securities are based on quoted market prices. Premiums and discounts on debt securities are amortized into interest income over the term of the securities in a manner that approximates the interest method. Realized gains and losses on sales of securities are computed using the specific identification method. Any security which management believes has experienced a decline in value which is other than temporary is written down to its fair value and a charge is recorded in net realized capital gains.

Short-term investments, consisting primarily of money market instruments maturing within one year are carried at cost which, along with accrued interest, approximates fair value. Cash and cash equivalents include cash on hand and short-term highly liquid investments of maturities of three months or less when purchased. These investments are carried at cost plus accrued interest which approximates fair value.

(d) Deferred Policy Acquisition Costs

Deferred policy acquisition costs, representing commissions and certain pre-tax underwriting costs, are deferred and amortized pro rata over the contract periods in which the related premiums are earned. Deferred acquisition costs are reviewed to determine if they are recoverable from future income, and if not, are charged to expense. Future investment income attributable to related premiums is taken into account in measuring the recoverable of the carrying value of this asset.

(e) Property and Equipment

Property and equipment are stated at costs, net of depreciation. Depreciation is computed using the straight-line method at rates based upon the respective estimated useful lives of the assets. Maintenance and repairs are expensed as incurred.

(f) Intangibles

Intangible assets relate to insurance operating licenses and are deemed to have an indefinite useful life. The Company performs an impairment test at least annually or more frequently if events or conditions indicate that the asset might be impaired. Based on these tests, the Company did not impair any intangible assets.

Prior to adoption of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (FAS 142) on January 1, 2002, intangibles were stated at amortized cost and amortized using the straight-line method. Intangibles include insurance operating licenses and goodwill, which represents the excess of cost over the fair market value of net assets acquired. These intangible assets were amortized over periods ranging from 15 to 25 years.

(g) Insurance Reserve Liabilities

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 the 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 recomputed periodically using new information on reported claims.

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 claims reporting patterns, past loss experience, risk factors and current trends and considers their effect in the determination of estimates of incurred but not reported losses. 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 contractor and its indemnitors. Management believes that the reserves for losses and loss adjustment expenses are adequate to cover the unpaid portion of the ultimate net cost of losses and loss adjustment expenses incurred, including losses incurred but not reported.

(h) Collateral Held

Collateral held represents cash and investments retained by the Company for surety bonds issued by the Company to cover costs of claims or unpaid premiums. The carrying amount of collateral held approximates its fair value because of the short maturity of these instruments.

(i) Reinsurance

In the normal course of business, the Company assumes and cedes reinsurance with other companies. Reinsurance ceded primarily represents excess of loss reinsurance with companies with "A" ratings from the insurance rating organization, A.M. Best Company, Inc. Reinsurance ceded also includes a facultative reinsurance treaty which is applicable to excess policies written over a primary policy issued by the Company for specific projects. Reinsurance is ceded to limit losses from large exposures and to permit recovery of a portion of direct losses; however, such a transfer does not relieve the originating insurer of its liability.

Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured business. The Company evaluates and monitors the financial condition of reinsurers under reinsurance arrangements to minimize its exposure to significant losses from reinsurer insolvencies.

Effective November 1, 2002 through April 30, 2004, the Company cedes 80% of its exposure in excess of $1,000,000 up to $5,000,000 on a per principal/insured basis. Prior to October 31, 2002, reinsurance was applicable on a per principal/insured basis for 100% of the losses in excess of $1,000,000 up to

$8,000,000. From May 1, 2000 to April 30, 2002, the Company also reinsured surety losses on a per principal basis for losses in excess of $8,000,000 up to $13,000,000.

Reinsurance recoverables include ceded reserves for losses and loss adjustment expenses. Ceded unearned premiums of $621,805 and $690,902 at December 31, 2003 and 2002, respectively, are included in other assets. All reinsurance contracts maintained by the Company qualify as short-duration prospective contracts. A summary of reinsurance premiums written and earned is provided below:

	Premiums Written			Premiums Earned		
	2003	2002	2001	2003	2002	2001
Direct	$15,623,105	9,104,072	8,350,916	$13,942,316	8,576,573	9,639,7
Assumed	11,485	1,387	47,491	4,745	26,965	32,7
Ceded	(1,597,325)	(1,119,464)	(1,766,087)	(1,676,147)	(1,031,813)	(2,091,2
Totals	$14,037,265	7,985,995	6,632,320	$12,270,916	7,571,725	7,581,2

Ceded incurred losses and loss adjustment expenses totaled $682,155, $6,549,843 and $148,557 for the years ended December 31, 2003, 2002 and 2001, respectively.

(j) Derivative Financial Instruments

The Company uses interest rate swaps as a means of hedging exposure to interest rate on its long-term debt. The Company does not hold or issue derivative instruments for trading purposes. The Company recognizes all derivatives as either assets or liabilities in the consolidated balance sheet and measure those instruments at fair value. Where applicable, hedge accounting is used to account for derivatives. To qualify for hedge accounting, the changes in value of the derivative must be expected to substantially offset the changes in value of the hedged item. Hedges are monitored to ensure that there is a high correlation between the derivative instruments and the hedged investment. Derivatives that do not qualify for hedge accounting, if any, would be marked to market with the changes in fair value reflected in the consolidated statement of earnings.

(k) Revenue Recognition

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.

Insurance premiums are recognized over the coverage period. Unearned premiums represent the portion of premiums written that is applicable to the unexpired terms of policies in force, calculated on a prorata basis.

(l) Income Taxes

The provision for taxes comprises two components, current income taxes and deferred income taxes. Deferred income taxes arise from changes during the year in cumulative temporary differences between the tax basis and book basis of assets and liabilities.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(m) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from reported results using those estimates.

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(n) Comprehensive Income

The following table summarizes reclassification adjustments for other comprehensive income and the related tax effects for the years ended December 31, 2003, 2002 and 2000:

	2003	2
Unrealized gains on investments:		
Unrealized holding gain (loss) arising during period, net of income tax expense	$ (54,497)	57
Less reclassification adjustment for gains included in net earnings, net of income tax expense of $122,924, $8,830 and $127,262 for 2003, 2002 and 2001, respectively.	238,618	1
Unrealized gain (loss) on derivatives qualifying as hedges	73,097	(11
Other comprehensive income (loss)	$ (220,018)	44

(o) Accounting Changes

Goodwill and Other Intangible Assets

In July 2001, the Financial Accounting Standards Board (FASB) issued FAS 142, "Goodwill and Other Intangible Assets". FAS 142 addresses the initial recognition and measurement of intangible assets acquired either singly or with a group of other assets, as well as the measurement of goodwill and other intangible assets subsequent to their initial acquisition. FAS 142 changes the accounting for goodwill and intangible assets that have indefinite useful lives from an amortization approach to an impairment-only approach that requires that those assets be tested at least annually for impairment. Intangible assets that have finite useful lives will continue to be amortized over their useful lives, but without an arbitrary ceiling on their useful lives.

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

As of January 1, 2002, the Company had an unamortized asset in the amount of $1,920,360 which was subject to the transition provisions of FAS No. 142. The Company stopped amortizing intangibles on January 1, 2002. Net earnings and earnings per share adjusted to exclude intangible amortization for the year ended December 31, 2001 are as follows:

	2001
Net earnings	$1,706,5
Intangible amortization	321,7
Adjusted net earnings	$2,028,2
Basic earnings per share:	
Reported earnings per share	$.
Intangible amortization	.
Adjusted basic earnings per share	$.
Diluted earnings per share:	
Reported earnings per share	$.
Intangible amortization	.
Adjusted diluted earnings per share	$.

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

Accounting for Stock-Based Compensation-Disclosure

In December, 2002, the FASB issued Statement of Financial Accounting Standards No. 148 "Accounting for Stock-Based Compensation-Transition and Disclosure" (FAS 148), an amendment to FASB Statement No. 123 "Accounting for Stock-Based Compensation" (FAS 123). It amends the disclosure provisions of FAS 123 to require prominent annual disclosure about the effects on reported net earnings of stock-based compensation in the Summary of Significant Accounting Policies and also requires disclosure about these effects in interim financial statements. These provisions are effective for financial statements for fiscal years ending after December 15, 2002. Accordingly, the Company has adopted the applicable disclosure requirements of this statement for year-end reporting.

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 (loss) 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. See Note 15 for a description of the method and fair value assumptions used in estimating the fair value of options.

The pro forma fair value of stock-based compensation in the Company's Class A Shares for the year ended December 31, 2003, 2002 and 2001 is as follows:

	2003	2002
Net earnings as reported	$1,613,994	3,156,8
Add: Stock-based employee compensation expense included in reported net earnings, net of related tax effects	---	-
Deduct: Stock-based compensation expense determined under fair value based method, net of related tax effects	(90,495)	(221,2
Net earnings, pro forma	$1,523,499	2,935,6
Earnings per share		
Basic and diluted - as reported	$ .70/.69	1.33/$1.
Basic and diluted - pro forma	$ .66/.65	1.24/$1.

The Meaning of Other-Than-Temporary Impairments

Effective December 31, 2003, the Company adopted FASB Emerging Issues Task Force (EITF) Issue 03-01, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments (EITF 03-01). EITF 03-01 requires that certain quantitative and qualitative disclosures be made for debt and marketable equity securities classified as available for sale or held to maturity that are impaired at the balance sheet date but for which an impairment has not been recognized.

Hedging Instruments

In April 2003, the FASB issued Statement of Financial Standards No.149, "Amendment of Statement 133 on Derivative Investments and Hedging Activities" (FAS 149), which amends and clarifies the accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under FAS 133. FAS 149 amends FAS 133 for decisions made as part of the Derivatives Implementation Group process that effectively required amendment to FAS 133. FAS 149 also clarifies under what circumstances a contract with an initial net investment and purchases and sales of when-issued securities that do not yet exist meet the characteristics of a derivative. In addition, it clarifies when a derivative contains a financing component that warrants special reporting in the statement of cash flows. FAS 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The adoption of FAS 149 did not have an impact on the Company's results of operations, financial condition or liquidity.

(p) Accounting Standards Not Yet Adopted

Consolidation of Variable Interest Entities

In December 2003, the FASB issued Revised Interpretation No. 46R, "Consolidation of Variable Interest Entities" (FIN 46R). FIN 46R 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. FIN 46R 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. FIN 46R clarifies how to identify a variable interest entity and how to determine when a business enterprise should include the assets, liabilities, non-controlling interests and results of activities of a variable interest entity in its consolidated financial statements. FIN 46R is effective for public companies that have VIEs or potential VIEs that are special-purpose entities for periods ending after December 15, 2003. Application by public companies for all other types of entities is required for periods ending after March 15, 2004.

The Company holds mortgage-backed and asset-backed securities which are considered variable interest entities. The Company has assessed the impact that the provisions of FIN 46R may have on the consolidated financial statements. The provisions of the new standard is not expected to impact the Company.

(q) Life Insurance Proceeds, net

On January 13, 2002, the Founder, Chairman, President and Chief Executive Officer of the Corporation died at the age of 82. The Company was the owner and beneficiary of several key-man life insurance policies totaling approximately $11.9 million. After consideration of the cash-surrender value of the policies, the Company reported a gross gain of approximately $8.8 million in 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.

(2) INVESTMENTS

INVESTMENTS AT DECEMBER 31, 2003 AND 2002 FOLLOWS:	AMORTIZED COST	ESTIMATED FAIR VALUE

2003		
Fixed maturities - available for sale:		
Bonds:		
States, municipalities and political subdivisions	$ 550,017	546,750
United States government and government agencies	15,930,132	16,146,082
Mortgage-backed securities	28,777,239	28,949,766
Industrial and miscellaneous	7,799,709	7,712,614
Total fixed maturities	53,057,097	53,355,212
Equity securities - common stocks:		
Banks, trusts and insurance	265,559	261,605
Equity securities - redeemable preferred stocks:		
Banks, trusts and insurance	2,100,000	2,180,960
Public utilities	500,000	533,400
Industrial and miscellaneous	6,375,000	6,545,950
Equity securities perpetual preferreds:		
Industrial and miscellaneous	1,000,000	1,019,600
Total equity securities	10,240,559	10,541,515
Short-term investments	760,872	760,872
Total investments	$ 64,058,528	64,657,599
2002		
Fixed maturities - available for sale:		
Bonds:		
States, municipalities and political subdivisions	$ 7,111,710	7,382,742
United States government and government agencies	14,077,949	14,554,348
Mortgage-backed securities	35,883,048	36,149,429
Industrial and miscellaneous	2,800,000	2,832,772
Total fixed maturities	59,872,707	60,919,291
Equity securities - common stocks:		
Banks, trusts and insurance	265,559	232,100
Equity securities - redeemable preferred stocks:		
Banks, trusts and insurance	2,060,000	2,051,800
Industrial and miscellaneous	4,375,000	4,413,250
Total equity securities	6,700,559	6,697,150
Short-term investments	2,132,966	2,132,966
Total investments	$ 68,706,232	69,749,407

Fair value estimates are made based on quoted market prices and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

On December 31, 2003, the Company's insurance subsidiaries had securities with an aggregate fair value of approximately $10.5 million on deposit with various state regulatory authorities.

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The amortized cost and fair value of fixed maturities at December 31, 2003, by effective maturity, follows:

	2003	
	Amortized Cost	Fair Value
Due in one year or less	$ 4,719,578	4,753,951
Due after one year through five years	12,010,263	12,301,295
Due after five years through ten years	3,550,017	3,492,900
Due after ten years	4,000,000	3,857,300
Mortgage-backed securities	28,777,239	28,949,766
Total	$ 53,057,097	53,355,212

Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

The Company's portfolio is comprised primarily of fixed maturity securities rated AA or better by Standard and Poor's and includes mostly U.S. Treasuries and tax-free municipal securities

The Company makes investments in collateralized mortgage obligations (CMOs). CMOs typically have high credit quality, offer good liquidity, and provide a significant advantage in yield and total return compared to U.S. Treasury securities. The Company's investment strategy is to purchase CMO tranches which offer the most favorable return given the risks involved. One significant risk evaluated is prepayment sensitivity. This drives the investment process to generally favor prepayment protected CMO tranches including planned amortization classes and last cash flow tranches. The Company does invest in other types of CMO tranches if a careful assessment indicates a favorable risk/return tradeoff. The Company does not purchase residual interests in CMOs.

At December 31, 2003 and 2002, the Company held CMOs classified as available for sale with a fair value of $27,024,674 and $33,057,515, respectively. Approximately 69% and 47% of the Company's CMO holdings are fully collateralized by GNMA, FNMA or FHLMC securities at December 31, 2003 and 2002, respectively. In addition, the Company held $1,925,092 and $3,091,914 of GNMA, FNMA, FHLMC or FHA mortgage-backed pass-through securities classified as available for sale at December 31, 2003 and 2002, respectively. Virtually all of these securities are rated Aaa.

A summary of gross unrealized gains and losses at December 31, 2003 and 2002 follows:

	2003		2002	
	Gains	Losses	Gains	Losses

States, municipalities and Political subdivisions	$ ---	(3,267)	271,032	---
United States government and Government agencies	301,435	(85,485)	476,399	---
Industrial and miscellaneous	25,075	(112,170)	32,772	---
Mortgage-backed securities	313,052	(140,525)	403,739	(137,358)
Total	639,562	(341,447)	1,183,942	(137,358)
Equity securities	322,156	(21,200)	152,491	(155,900)
Total	$ 961,718	(362,647)	1,336,433	(293,258)

An investment in debt or equity security is impaired if its fair value falls below its book value and the decline is considered to be other-than temporary. Factors considered in determining whether a decline is other-than-temporary include the length of time and the extent to which fair value has been below cost, the financial condition and the near-term prospects of the issuer; and the Company's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery. Additionally, for certain securitized financial assets with contractual cash flows (including asset backed securities), EITF 99-20 requires the Company to periodically update its best estimate of cash flows over the life of the security. If management determines that the fair value of its securitized financial asset is less than its carrying amount and there has been a decrease in the present value of the estimated cash flows since the last revised estimate, considering both timing and amount, then an other-than-temporary impairment charge is recognized. A debt security is impaired if it is probable that the Company will not be able to collect all amounts due under the security's contractual terms. Equity investments are impaired when it becomes apparent that the Company will not recover its cost over the expected holding period and consideration given to the financial condition of the issue. Further, for securities expected to be sold, an other-than-temporary impairment charge is recognized if the Company does not expect the fair value of a security to recover the cost prior to the expected date of sale.

The Company's process for reviewing invested assets for impairments during any quarter includes the following:

- Identification and evaluation of investments which have possible indications of impairment;

- Analysis of investments with gross unrealized investment losses that have fair value less than 80% of amortized cost during successive quarterly periods over a rolling one-year period;

- Management review of for other-than-temporary impairments based on the investee's current financial condition, liquidity, near term recovery prospects and other factors, as well as consideration of other investments that were not recommended for other-than-temporary impairments;

- Consideration of evidential matter, including an evaluation of factors or triggers that would or could cause individual investments to qualify as having other-than-temporary impairment and those that would not support other-than-temporary impairments;

- Determination of the status of each analyzed investment as other-than-temporary or not.

The gross unrealized investment losses and related fair value for fixed maturities and equity securities at December 31, 2003 were as follows:

	Less than 12 months		12 months or longer	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealiz Loss
Fixed maturities:				
States, municipalities and political subdivisions	$ 546,750	3,267	---	---
United States government and government agencies	2,433,355	85,485	---	---
Mortgage-backed securities	8,116,905	131,842	1,451,831	8,683
Industrial and miscellaneous	4,887,830	112,170	---	---
Total fixed maturities	15,984,840	332,764	1,451,831	8,683
Equity securities - common stocks:	996,000	4,000	---	---
Equity securities - redeemable preferred:	---	---	167,800	17,200
Total equity	996,000	4,000	167,800	17,200
Total temporarily impaired securities	$16,980,840	336,764	1,619,631	25,883

(3) INVESTMENT INCOME AND REALIZED CAPITAL GAINS AND LOSSES

A summary of net investment income for the years ended December 31, 2003, 2002 and 2001 follows:

	2003	2002	2001
Tax-exempt interest	$ 21,574	359,888	851,666
Taxable interest	2,185,283	2,885,223	3,050,142
Dividends on equity securities	477,177	319,825	156,067
Investment expenses	(15,094)	(11,371)	(26,082)
Net investment income	$ 2,668,940	3,553,565	4,031,793

Realized capital gains (losses) for the years ended December 31, 2003, 2002 and 2001 follows:

	2003	2002	2001
Fixed maturities	$ 225,366	20,511	302,378
Equity securities	136,176	5,460	71,923

Net realized capital gains (losses)	$ 361,542	25,971	374,301

Proceeds from sales of fixed maturities classified as available for sale were $42,957,167, $31,933,298 and $53,938,741 in 2003, 2002 and 2001, respectively. Gross gains of $226,122, $36,482 and $314,351 and gross losses of $756, $15,971 and $11,973 were realized on fixed maturity sales for the years ended December 31, 2003, 2002 and 2001, respectively. Proceeds from sales of equity securities were $5,711,774, $2,145,444 and $3,568,173 in 2003, 2002 and 2001, respectively. Gross gains of $136,176, $11,490 and $71,923 were realized on the sale of equity securities for the years ended December 31, 2003, 2002 and 2001, respectively, and gross losses of $6,030 were realized on equity security sales for the year ended December 31, 2002. There were no gross losses realized on equity security sales for the year ended December 31, 2003 and 2001.

(4) RECEIVABLES

A summary of receivables at December 31, 2003 and 2002 follows:

	2003	
Insurance premiums due from agents	$ 749,930	7
Receivables under construction contracts:		
Amounts billed	949,697	9
Recoverable costs in excess of billings on uncompleted contracts	373,398	2
Billings in excess of costs on uncompleted contracts	(257,079)	(3
Retainage, due on completion of contracts	660,920	1,3
Total receivables under construction contracts	1,726,936	2,1
Other	48,711	
Total receivables	2,525,577	2,9
Less allowances for doubtful accounts	(302,606)	(3
Total receivables, net	$2,222,971	2,5

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The balances billed but not paid by customers pursuant to retainage provisions in construction contracts will be due upon completion of the contracts and acceptance by the owner. In management's opinion, the majority of contract retainage is expected to be collected in 2004.

Recoverable costs in excess of billings on uncompleted contracts are comprised principally of amounts of revenue recognized on contracts for which billings had not been presented to the contract owners as of the balance sheet date. These amounts will be billed in accordance with the contract terms.

(5) PROPERTY AND EQUIPMENT

A summary of property and equipment at December 31, 2003 and 2002 follows:

	2003	2002
Building	$15,325,468	15,285,930
Land	800,000	800,000
Equipment and vehicles	1,508,179	1,402,061
Furniture and fixtures	862,599	864,039
	18,496,246	18,352,030
Less accumulated depreciation	7,300,883	6,628,890
	$11,195,363	11,723,140

Useful lives for depreciation purposes are five years for equipment and vehicles, fifteen years for furniture and fixtures and forty years for the building. Depreciation expense in 2003, 2002 and 2001 was $711,507, $775,906 and $772,519, respectively.

Future minimum rental income to be generated by leasing a portion of the building under non-cancelable operating leases as of December 31, 2003 are estimated to be $417,304 for 2004, $364,104 for 2005, $364,104 for 2006, $364,104 for 2007 and $280,104 for 2008. Rental income earned in 2003, 2002 and 2001 was $496,820, $607,097 and $593,573, respectively.

(6) RESERVES FOR LOSSES AND LOSS ADJUSTMENT EXPENSES

The following table sets forth a reconciliation of beginning and ending reserves for unpaid losses and loss adjustment expenses for the periods indicated on a GAAP basis for the business of the Company.

	2003	2002	2001
Balance at January 1	$25,642,865	22,585,626	29,310,606
Less reinsurance recoverable	8,383,894	2,772,668	2,580,388
Net balance at January 1	$17,258,971	19,812,958	26,730,218
Incurred related to:			
Current year	4,283,000	4,363,000	4,144,000
Prior years	710,991	(291,601)	(2,607,978)
Total incurred	4,993,991	4,071,399	1,536,022
Payments related to:			
Current year	40,000	625,000	1,723,000
Prior years	5,740,616	6,000,386	6,730,282
Total payments	5,780,616	6,625,386	8,453,282

Net balance at December 31	16,472,346	17,258,971	19,812,958
Plus reinsurance recoverable	4,376,220	8,383,894	2,772,668
Balance at December 31	$20,848,566	25,642,865	22,585,626

The decrease in net loss and loss adjustment expense reserves was primarily due to payments on surety and general liability policies for prior years net of subrogation and ceded recoveries partially offset by unfavorable development in prior accident years. Loss and loss adjustment expenses incurred primarily reflects two large losses of approximately $2.2 million in 2002. Also, the favorable development observed previously in prior years reduced significantly as the actual loss experience came in closer to the estimates. The increase in reinsurance recoverable in 2002 from 2001 is primarily due to one liability claim, which exceeded the limits retained by the Company and was partially paid in 2003.

While management continually evaluates the potential for changes in loss estimates, due to the uncertainty inherent in the liability and surety business, the emergence of net favorable development may or may not occur. Management believes that the reserves for losses and loss adjustment expense are adequate to cover the unpaid portion of the ultimate net cost of losses and loss adjustment expenses, including losses incurred but not reported.

The Company has no exposure to any asbestos or environmental claims associated with general liability policies issued with the pre-1986 pollution exclusion. Policies written with the exclusion are typically associated with mass tort environmental and asbestos claims. The Company has never issued a policy with the pre-1986 pollution exclusion. The Company's exposure to asbestos and environmental liability claims is primarily limited to asbestos and environmental liability insurance for contractors and consultants involved in the remediation, removal, storage, treatment and/or disposal of environmental and asbestos hazards.

(7) NOTES PAYABLE TO BANKS

At December 31, 2003, the Company has a $10,000,000 bank line of credit with two financial institutions. The line of credit does not require the Company to maintain a compensating balance. There were no outstanding borrowings under this line of credit at December 31, 2003 and 2002. Under the terms of the line of credit, interest on the outstanding balance is calculated based upon the London Inter-Bank Offering Rate (LIBOR) plus 160 basis points in effect during the borrowing period. The Company pays an annual commitment fee of .25% of the unused portion of the bankline.

(8) LONG-TERM DEBT

A summary of long-term debt at December 31, 2003 and 2002 follows:

	2003	2002
Term Loan I due 2004	$ 250,000	1,250,000
Term Loan II due 2008	5,000,000	5,000,000
Term Loan III due 2009	9,277,778	9,944,444
Mortgage Note due 2009	4,579,515	5,317,477
	$ 19,107,293	21,511,921

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On November 22, 2002, the Company obtained a $10,000,000 term loan from two financial institutions, which is payable in monthly installments of $55,556 with a balloon payment of $5,388,888 due on November 22, 2009. The term loan has a balance of $9,277,778 at December 31, 2003. The interest rate for this term loan varies based on LIBOR plus 200 basis points in effect during the borrowing period. In connection with this term loan, the Company also entered into an interest rate swap that establishes a fixed interest rate for half of the loaned amount at 6.08%. The loan agreement contains certain limitations on borrowing, minimum statutory capital levels and requires maintenance of certain ratios. The proceeds were used to prepay the balance of the Convertible Notes due 2022.

On December 17, 2001, the Company obtained a $5,000,000 term loan from a financial institution, which is payable in quarterly installments of $250,000 which is to commence March 1, 2004. The term loan, due 2009 has a balance of $5,000,000 at December 31, 2003. The interest rate varies based on LIBOR plus 190 basis points in effect during the borrowing period. The interest rate cannot exceed 5.5%. The loan agreement contains certain limitations on borrowings, minimum statutory capital levels and requires maintenance of certain ratios. The proceeds were used to prepay $5,005,000 of the Convertible Notes due 2022.

On September 1, 1999, the Company obtained a $4,500,000 term loan from a financial institution, which is payable in quarterly installments of $250,000 which commenced December 1, 1999. The term loan, due 2004 has a balance of $250,000 at December 31, 2003. The interest rate is fixed at 7.25%. The loan agreement contains certain limitations on borrowings, minimum statutory capital levels and requires maintenance of certain ratios. The proceeds were used to replace a $5,000,000, five year term loan obtained on December 9, 1998.

On December 23, 1998, the Company obtained a permanent mortgage loan from a financial institution. The $7,800,000 mortgage note, with interest fixed at 6.95% is payable in monthly installments of principal and interest over 10 years. The mortgage note, due 2009, has a balance of $4,579,515 at December 31, 2003. The loan agreements contain certain limitations on borrowings, minimum statutory capital levels and require maintenance of certain ratios.

Principal payments on long-term debt are $2,708,396, $2,515,208, $2,576,097, $2,641,354 and $2,717,812 for the years 2004 through 2008, respectively. Interest expense paid in 2003, 2002 and 2001 amounted to $1,068,514, $1,977,661 and $2,804,927, respectively.

The fair value at December 31, 2003 of the mortgage and the term loans approximate carrying value.

(9) INCOME TAXES

The components of income tax expense (benefit) for the years ended December 31, 2003, 2002 and 2001 follows:

	2003	2002	2001

Current Taxes:			
Federal	$193,303	(226,658)	542,635
State	85,000	85,000	75,000
	278,303	(141,658)	617,635
Deferred Taxes:			
Federal	635,551	(2,389,776)	289,722
Total	$913,854	(2,531,434)	907,357

The effective income tax rate, as a percentage of earnings before income taxes for the years ended December 31, 2003, 2002 and 2001 follows:

	2003	2002	2001
Federal statutory tax rate	34.0%	34.0%	34.0%
State income tax	2.2	9.0	1.9
Effect of tax-exempt interest	(.2)	(15.5)	(9.0)
Amortization of goodwill	---	8.9	4.2
Proceeds from life insurance proceeds	---	(441.6)	---
Officers life insurance premiums	.7	4.8	2.4
Other, net	(.5)	(4.3)	1.2
Effective income tax rate	36.2%	(404.7%)	34.7%

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ACMAT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2003 and 2002 are presented below:

	2003
Deferred Tax Assets:	
Reserves for losses and loss adjustment expenses	$ 797,449
Unearned premiums	390,024
Accounts receivable, principally due to allowance for doubtful accounts	102,886
State effect of temporary differences and net operating loss carryforward	1,006,614
Federal net operating loss carryforward	0
Alternative minimum tax credit carryforward	2,128,529
Other	5,450
Total gross deferred tax assets	4,430,952
Less valuation allowance	(1,006,614)
Net deferred tax assets	$ 3,424,338

Deferred Tax Liabilities:	
Plant and equipment	$ 469,497
Deferred policy acquisition costs	557,370
Unrealized gains on investments	203,684
Other	38,759
Total gross deferred tax liabilities	1,269,310
Net deferred tax assets	$ 2,155,028

The alternative minimum tax credit carryforward as of December 31, 2003 is $2,128,529 and has an indefinite life. In assessing the realization of deferred tax assets, management considers whether it is more likely than not that the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, tax planning strategies and anticipated future taxable income in making this assessment and believes it is more likely than not the Company will realize the benefits of its deductible temporary differences, net of the valuation allowance, at December 31, 2003 and 2002.

The most significant component of the state gross deferred asset is the net operating loss carryforward for the State of Connecticut which amounted to $19,617,404 as of December 31, 2003. Of this amount, $12,166,096 expires in 2020 and 2023. In 2003 and 2002, a valuation allowance is provided to offset the deferred tax asset related to the state deferred tax assets as management believes it is more likely than not that these deferred tax assets are unrealizable.

Taxes paid in 2003, 2002 and 2001 were $300,727, $180,392 and $626,625, respectively.

(10) PENSION AND PROFIT SHARING PLANS

Effective January 1, 2000, the Company adopted the ACMAT 401(k) plan for the benefit of non-union employees. The Company contributed $75,000 to the ACMAT 401(k) Plan in 2003, 2002 and 2001. Costs associated with operating the Plan are borne by the Company and were insignificant for each of the years ended December 31, 2003, 2002 and 2001.

The Company participated in various multi-employer defined contribution plans for its union employees. Upon withdrawal from these plans, the Company may be liable for its share of the unfunded vested liabilities of the plans. Such obligations, if any, of the Company are not determinable at December 31, 2003.

(11) DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses interest rate swaps as a means of hedging exposure to interest rate risk on its long-term debt. To qualify as a hedge, the hedge relationship must be designated and documented at inception and be highly effective in accomplishing the objective of offsetting the changes in cash flows for the risk being hedged. To the extent these derivatives are effective in offsetting the variability of the hedged cash flows, changes in the derivatives' fair value are not be included in current earnings but are reported in accumulated other comprehensive income ("AOCI"). For the years ended December 31, 2003 and 2002, the amounts included in AOCI for these changes were losses of $73,097 and $117,142, respectively, and would be included in the earnings of future periods when those earnings are also affected by the variability of the hedged cash flows.

During the year ending December 31, 2004, the amount of losses the Company expects to reclassify from AOCI into interest expense for its cash flow hedges is not significant. To the extent these hedges are not effective, changes in their fair value would be immediately included in earnings.

ACMAT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(12) STOCKHOLDERS' EQUITY

The Company has two classes of common stock; the Common Stock and the Class A Stock, each without par value. The rights of the Common Stock and the Class A Stock are identical, except with respect to voting rights. Holders of the Class A Stock are entitled to one-tenth vote per share in relation to the Common Stock, holders of which are entitled to one vote per share.

During 2003 and 2002, ACMAT repurchased, in open market and privately negotiated transactions, 4,000 and 4,234, respectively, shares of its Common Stock at an average price of $10.93 and $19.01 per share, respectively. The Company also repurchased during 2003, 2002 and 2001, in open market and privately negotiated transactions, 13,700, 78,114 and 234,235, respectively, shares of its Class A Stock at an average price of $8.89, $8.88 and $7.80 per share, respectively.

The Board of Directors has periodically approved the grant of non-qualified stock options to certain officers and directors giving such individuals the right to purchase restricted shares of the Company's Common Stock and Class A Stock. Transactions regarding these stock options are summarized below:

	2003	
Options outstanding at December 31	384,500	
Weighted average price per share of options outstanding	$ 8.50	$
Expiration dates	9/04-6/12	9
Options exercisable at December 31	272,500	
Options granted	---	
Options exercised or surrendered	---	
Price ranges of options exercised or surrendered	---	$

The exercise price of each option equals the market price of the Company's stock on the date of grant and the option's term is ten years. On June 20, 2002 the Board of Directors granted 174,500 options to certain directors and officers which generally vest over a ten-year period for employees. The Board of Directors granted 70,000 options to certain directors and officers on December 16, 2000 which vested on June 14, 2001.

Under applicable insurance regulations, ACMAT's insurance subsidiaries are restricted as to the amount of dividends they may pay, without the prior approval of any insurance department and are limited to approximately $3,920,000 in 2004.

The Company's insurance subsidiaries, United Coastal Insurance and ACSTAR, are domiciled in Arizona and Illinois, respectively. The statutory financial statements of United Coastal Insurance and ACSTAR are prepared in accordance with accounting practices prescribed by the Arizona Department of Insurance and the Illinois Department of Insurance, respectively. Prescribed statutory accounting practices include a variety of publications of the National Association of Insurance Commissioners (NAIC), as well as the state laws, regulations, and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not so prescribed of which the Company has none.

In accordance with statutory accounting practices, ACMAT's insurance subsidiaries' statutory capital and surplus was $47,863,948 and $48,423,319 at December 31, 2003 and 2002, respectively, and their statutory net income for the years ended December 31, 2003, 2002 and 2001 was $2,845,372, $1,988,493 and $6,048,222, respectively. The primary differences between amounts reported in accordance with GAAP and amounts reported in accordance with statutory accounting practices are carrying value of fixed maturity investments; assets not admitted for statutory purposes such as agents balances over 90 days, furniture and fixtures and certain notes receivable; and deferred acquisition costs recognized for GAAP only.

(13) 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 years ended December 31, 2003, 2002 and 2001:

	Earnings	Average Shares Outstanding	Per-Share Amount
2003:			
Basic EPS:			
Earnings available to stockholders	$1,613,994	2,299,557	$ .70
Effect of Dilutive Securities:			
Stock options	---	36,441	
Diluted EPS:			
Earnings available to stockholders	$1,613,994	2,335,998	$ .69
2002:			
Basic EPS:			
Earnings available to stockholders	$3,156,893	2,365,344	$1.33
Effect of Dilutive Securities:			
Stock options	---	32,653	
Diluted EPS:			
Earnings available to stockholders	$3,156,893	2,397,997	$1.32
2001:			

Basic EPS:			
Earnings available to stockholders	$1,706,588	2,438,996	$ .70
Effect of Dilutive Securities:	---	55,094	
Stock options			
Diluted EPS:			
Earnings available to stockholders	$1,706,588	2,494,090	$ .68

(14) STOCK OPTION FAIR VALUE INFORMATION

The fair value effect of stock options reported in Note 1, Stock-Based Compensation, is derived by application of a variation of the Black-Scholes option pricing model. No options were granted in 2003 and 2001.

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	---

(15) COMMITMENTS AND CONTINGENCIES

The Company is a party to legal actions arising in the ordinary course of its business. In management's opinion, the Company has adequate legal defenses respecting those actions where the Company is a defendant, has appropriate insurance reserves recorded, and does not believe that their settlement will materially affect the Company's operations or financial position.

Many construction projects in which the Company has been engaged have included asbestos exposures which the Company believes to involve a particularly high degree of risk because of the hazardous nature of asbestos. The Company believes it has reduced the risks associated with asbestos through proper training of its employees and by maintaining general liability and workers' compensation insurance. From 1986 to 1996, the Company obtained its general liability insurance from its insurance subsidiaries. Since 1996, the Company obtained its general liability insurance from unaffiliated insurance companies. Since 1989, the Company has obtained its surety bonds from its insurance subsidiary.

The Company has, together with many other defendants, been named as a defendant in actions by injured or deceased individuals or their representatives based on product liability claims relating to materials containing asbestos. No specific claims for monetary damages are asserted in these actions. Although it is early in the litigation process, the Company does not believe that its exposure in connection with these cases is significant.

ACMAT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(16) 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, 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 is summarized as follows:

	2003	2002	2001
Revenues:			
ACSTAR Bonding	$ 7,867,344	5,360,871	5,487,683
United Coastal Liability Insurance	7,121,635	5,458,373	6,363,392
ACMAT Contracting	6,643,777	19,658,401	17,540,369
	$ 21,632,756	30,477,645	29,391,444
Operating Earnings (Loss):			
ACSTAR Bonding	$ 2,631,790	1,217,718	2,098,548
United Coastal Liability Insurance	1,414,416	677,349	2,810,000
ACMAT Contracting	(458,384)	(2,690,427)	912,376
	$ 3,587,822	(795,360)	5,820,924
Depreciation and Amortization:			
ACSTAR Bonding	$ 604,048	378,906	578,967

United Coastal Liability Insurance	307,970	203,506	299,353
ACMAT Contracting	484,698	484,479	656,737
	$ 1,396,716	1,066,891	1,535,057
Identifiable Assets:			
ACSTAR Bonding	$ 73,704,644	56,407,938	48,282,555
United Coastal Liability Insurance	41,015,316	46,443,389	42,801,086
ACMAT Contracting	17,709,807	19,113,436	18,379,815
	$ 132,429,857	121,964,763	109,463,456
Capital Expenditures:			
ACSTAR Bonding	$ 66,194	82,134	55,596
United Coastal Liability Insurance	43,191	53,296	105,678
ACMAT Contracting	74,345	89,960	260,109
	$ 183,730	225,390	421,383

ACMAT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The components of revenue for each segment are as follows:

	2003	2002	2001
ACSTAR Bonding:			
Premiums	$ 6,578,324	4,001,183	3,808,737
Investment income, net	1,177,091	1,451,169	1,560,080
Capital gains	272,565	5,737	191,670
Other income (expense)	(160,636)	(97,218)	(72,804)
	$ 7,867,344	5,360,871	5,487,683
United Coastal Liability Insurance:			
Premiums	5,692,592	3,570,542	3,772,539
Investment income, net	1,271,612	1,845,179	2,385,377
Capital gains	88,977	20,234	182,631
Other income	68,454	22,418	22,845
	$ 7,121,635	5,458,373	6,363,392
ACMAT Contracting:			
Contract revenues	$ 2,982,197	16,289,326	14,074,878
Investment income, net	10,388	91,811	44,707
Inter-segment revenue:			
Rental income	768,146	1,286,000	1,277,794
Underwriting services and agency commissions	1,905,811	1,131,857	1,192,472
Other income	977,235	859,407	950,518
	$ 6,643,777	19,658,401	17,540,369

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	$21,632,756	30,477,645	29,
Life insurance proceeds, net	---	3,348,903	
Inter-segment eliminations	(2,464,108)	(2,252,451)	(2,
	$19,168,648	31,574,097	26,
Operating Earnings:			
Total operating earnings for reportable segments	$ 3,587,822	(795,360)	5,
Interest expense	(1,059,974)	(1,928,084)	(2,
Life insurance proceeds, net	---	3,348,903	
Intersegment interest expense	---	---	(
Other operating expenses	---	---	(
	$ 2,527,848	$ 625,459	2,

Operating earnings for ACMAT contracting are operating revenues less cost of contract revenues and identifiable selling, general and administrative expenses. Operating earnings for the bonding and liability insurance segments are revenues less losses and loss adjustment expenses, amortization of policy acquisition costs and identifiable selling, general and administrative expenses. The adjustments and eliminations required to arrive at consolidated amounts shown above consist principally of the elimination of the intersegment revenues related to the performance of certain services and rental charges. Identifiable assets are those assets that are used by each segment's operations. Foreign revenues are not significant.

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ACMAT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(17) QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

A summary of the unaudited quarterly results of operations for 2003 and 2002 follows:

	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 3
2003				
Revenue	$ 4,005,193	4,352,178	5,103,958	5,707,319
Net Earnings	$ 377,587	504,590	631,629	100,188

Basic Earnings Per Share	$ .16	.22	.28	.04
Diluted Earnings Per Share	$ .16	.22	.27	.04
2002				
Revenue	$11,061,136	9,870,189	6,861,143	3,781,629
Net Earnings	$ 737,309	806,163	868,596	744,825
Basic Earnings Per Share	$ .31	.34	.37	.32
Diluted Earnings Per Share	$ .30	.33	.36	.32

Annual earnings per share for 2002 does not equate to the sum of the quarters due to the timing of stock repurchases.

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Schedule I

ACMAT CORPORATION AND SUBSIDIARIES

Condensed Financial Information of Registrant (Parent Company Only)
As of December 31, 2003 and 2002 and for the
years ended December 31, 2003, 2002 and 2001

The following presents the condensed financial position of ACMAT Corporation (parent company only) as of December 31, 2003 and 2002 and its condensed statements of earnings and cash flows for the years ended December 31, 2003, 2002 and 2001.

BALANCE SHEETS

	2003	200
Assets		
Current assets:		
Cash	$ 2,604,576	2,582
Receivables	1,520,252	1,941
Other current assets	273,624	614
Total current assets	4,398,452	5,138
Property and equipment, net	10,966,037	11,376
Investments in and advance from subsidiaries	45,280,522	45,854
Other assets	2,277,084	2,588
	$ 62,922,095	64,957

Liabilities and Stockholders' Equity

Current liabilities:		
Current portion of long-term debt	$ 2,708,396	2,405
Other current liabilities	1,732,624	2,592
Total current liabilities	4,441,020	4,997
Long-term debt	16,398,897	19,106
Total liabilities	20,839,917	24,104
Commitments and contingencies		
Stockholders' equity	42,082,178	40,853
	$ 62,922,095	64,957

See Notes to Condensed Financial Statements.

Schedule I, continued

ACMAT CORPORATION AND SUBSIDIARIES

Condensed Financial Information of Registrant (Parent Company Only), Continued

STATEMENT OF EARNINGS

	2003	2
Contract revenues	$ 2,982,197	$16,
Cost of contract revenues	2,898,517	18,
Gross profit (loss)	83,680	(2,
Selling, general and administrative expenses	4,073,311	3,
Operating loss	(3,989,631)	(5,
Interest expense	(1,059,974)	(1,
Interest income	9,661	
Underwriting fees	1,459,697	
Life insurance proceeds, net	---	3,
Other income	1,745,381	2,
Loss before income taxes and equity in net earnings of subsidiaries	(1,834,866)	(1,
Income tax benefit	(590,000)	(3,
Earnings (loss) before equity in net earnings of subsidiaries	(1,244,866)	1,
Equity in net earnings of subsidiaries	2,858,860	1,

Net earnings	$ 1,613,994	$ 3,

See Notes to Condensed Financial Statements.

Schedule I, Continued

ACMAT CORPORATION AND SUBSIDIARIES

Condensed Financial Information of Registrant (Parent Company Only), Continued

STATEMENTS OF CASH FLOWS

	2003	2
Cash flows from operating activities:		
Net earnings	$ 1,613,994	3,
Depreciation and amortization	484,698	
Equity in undistributed earnings of subsidiaries	(2,858,860)	(1,
(Increase) decrease in accounts receivable	421,074	2,
(Increase) decrease in other assets	724,745	(
Increase (decrease) in other liabilities	(859,522)	(1,
Net cash provided by (used for) operating activities	(473,871)	2,
Cash flows from investing activities:		
Capital expenditures	(74,345)	
Decrease in investment in subsidiaries	3,140,000	3,
Net cash provided by investing activities	3,065,655	3,
Cash flows from financing activities:		
Repayment of long-term debt	(2,404,628)	(13,
Issuance of long-term debt	---	10,
Issuance of Class A stock	---	
Payments for acquisition and retirement of stock	(165,506)	(
Net cash used for financing activities	(2,570,134)	(3,
Net change in cash	21,650	2,
Cash, beginning of year	2,582,926	
Cash, end of year	$ 2,604,576	2,

See Notes to Condensed Financial Statements.

Schedule I, Continued

ACMAT CORPORATION AND SUBSIDIARIES
Condensed Financial Information (Parent Company Only)
Notes to Condensed Financial Statements

The accompanying condensed financial statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto in the Company's 2003 Annual Report.

(1) SUPPLEMENTAL CASH FLOW INFORMATION

Income taxes received from subsidiaries during the years ended December 31, 2003, 2002 and 2001 were $1,226,055, $694,197, and $516,173, respectively. Interest paid during the years ended December 31, 2003, 2002 and 2001 was $1,068,514, $1,977,661 and $2,933,115, respectively. Interest paid in 2001 included $128,188, paid to subsidiaries for intercompany loans.

(2) LONG-TERM DEBT

A summary of long-term debt at December 31, 2003 and 2002 follows:

	2003	2002
Term Loan I due 2004	$ 250,000	1,250,000
Term Loan II due 2008	5,000,000	5,000,000
Term Loan III due 2009	9,277,778	9,944,444
Mortgage Note due 2009	4,579,515	5,317,477
	$ 19,107,293	21,511,921
Less current portion of long-term debt	(2,708,396)	(2,405,388)
	$ 16,398,897	19,106,533

See Note 8 to the Consolidated Financial Statements in the Annual Report for a description of the long-term debt and aggregate maturities for 2004 to 2008 and thereafter.

(3) INCOME TAXES

See Note 9 to the Consolidated Financial Statements in the Annual Report for a description of income taxes.

(4) DERIVATIVE FINANCIAL INSTRUMENTS

See Note 11 to the Consolidated Financial Statements in the Annual Report for a description of the derivative financial instruments.

(5) COMMITMENTS AND CONTINGENCIES

See Note 15 to the Consolidated Financial Statements in the Annual Report for a description of the commitments and contingencies.

SCHEDULE II

ACMAT CORPORATION AND SUBSIDIARIES

Valuation and Qualifying Accounts and Reserves

Years ended December 31, 2003, 2002 and 2001

Description	Balance at beginning of period	Additions charged to costs and expenses	Deductions (a)	Balance at End of Period
Allowance for doubtful accounts:				
2003	$ 345,143	120,000	162,537	$302,606
2002	$ 82,355	250,000	(12,788)	$345,143
2001	$ 147,346	(69,312)	(4,321)	$ 82,355

(a) Deductions represent accounts written off.

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ACMAT CORPORATION AND SUBSIDIARIES

Schedule V

Supplemental Information concerning property-casualty insurance operations

As of and for the years ended December 31, 2003, 2002 and 2001

Affiliation With Registrant	Deferred Policy Acquisition Costs	Reserves for Unpaid Losses and Loss Adjustment Expenses	Discount Ded. from Unpaid Losses and Loss Adjustment Expenses	Unearned Premiums	Earned Premiums	Net Investment Income
United Coastal Liability Insurance:						
2003	$ 747,818	15,245,560	--	2,968,267	5,692,592	1,271,612
2002	$ 567,765	20,239,315	--	2,374,149	3,570,542	1,845,179

2001	$ 531,015	16,463,542	--	2,368,912	3,772,539	2,385,377
ACSTAR Bonding:						
2003	$ 891,507	7,672,033	--	3,675,463	6,578,324	1,177,091
2002	$ 702,904	7,849,100	--	2,626,022	4,001,183	1,451,169
2001	$ 634,541	9,309,961	--	1,906,026	3,808,737	1,560,080

Affiliation With Registrant	Losses & Loss Adjustment Expenses Related Current Year	Incurred To Prior Years	Amortization of Deferred Policy Acquisition Costs	Paid Losses and Loss Adjustment Expenses	Premiums Written
United Coastal Liability Insurance:					
2003	2,706,000	321,036	1,555,151	3,917,353	6,441,764
2002	2,702,000	69,162	994,920	5,017,359	3,659,805
2001	1,024,000	107,762	1,286,409	5,665,869	3,133,460
ACSTAR Bonding:					
2003	1,577,000	389,955	2,136,115	1,863,263	7,595,501
2002	1,661,000	(360,763)	1,564,398	1,608,027	4,326,190
2001	1,397,000	(992,740)	1,601,377	2,787,413	3,498,860

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE: None

ITEM 9A. CONTROLS AND PROCEDURES

Company management, with the participation of the Company's chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of December 31, 2003. Based on this evaluation, the Company's chief executive officer and chief financial officer concluded that, as of December 31, 2003, the Company's disclosure controls and procedures were (1) designed to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to our chief executive officer and chief financial officer by others within those entities, particularly during the period in which this report was being prepared, and (2) effective, in that they provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission.

No changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) have occurred during the fiscal quarter ended December 31, 2003 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The following table shows for each director (a) his or her age, (b) the year in which the director first served as a director of the Company, (c) position with the Company and business experience during the past five years, including principal occupation, (d) his or her committee assignments, and (e) his or her other directorships. Each director is elected for a term of one year and until his or her successor shall be elected.

NAME	AGE	DIRECTOR SINCE	POSITION WITH THE COMPANY AND BUSIN DURING LAST FIVE YEARS, INCLUDIN
HENRY W. NOZKO, JR. (1)	57	1971	President, Chief Executive Officer, Director and Chairman of the Board President, Chief Executive Officer United Coastal Insurance Company. Treasurer of ACSTAR Holdings, Inc. Insurance Company. Member, Boards o United Coastal Insurance Company, A Inc., ACSTAR Insurance Company.
VICTORIA C. NOZKO (1)	85	1982	Housewife during past five years.
JOHN C. CREASY	84	1987	Retired Chief Executive Officer of Member, Board of United Coastal Ins Member of the Compensation Committe Committee.
ARTHUR R. MOORE	70	1999	Former General President of Sheet M International Association. Member Committee.
HENRY W. NOZKO III (1)	26	2002	Construction Manager of the Company Underwriting Manager of ACSTAR and Insurance Companies. Member, Board Insurance Company.
ANDREW W. SULLIVAN, JR.	61	2003	Retired Partner of KPMG LLP. Direct Committee Chairman of Connecticut R Authority since June 2002. Trustee Committee Chairman of Mark Twain Ho 1997. Chairman of the Audit Committ

(1) Mrs. Victoria C. Nozko is the mother of Mr. Henry W. Nozko, Jr. Mr. Henry W. Nozko III is the son of Mr. Henry W. Nozko, Jr. and the grandson of Mrs. Victoria C. Nozko.

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Executive Officers of the Registrant:

The following are the Company's Executive Officers, their age, and offices held. Officers are appointed to serve until the meeting of the Board of Directors following the next Annual Meeting of Stockholders and until their successors have been elected.

NAME	AGE	OFFICES HELD
Henry W. Nozko, Jr.	57	President, Chief Executive Officer, Treasurer, Director and Chairman of the Board since January 2002. Executive Vice President since 1982. Treasurer since 1973. Director since 1971, and Chief Operating Officer since 1985.
Robert H. Frazer	57	Vice President since 1982. Secretary since 1992. General Counsel since 1977.
Michael P. Cifone	45	Senior Vice President and Chief Financial Officer since March 2002. Vice President-Finance since 1990. Corporate Controller since 1989.

Certain information required by this Item 10 is set forth in the proxy statement under the headings "Directors and Nominees for Director", Board and Committee Meetings" and "Section 16(a) Beneficial Ownership Reporting Compliance", which information is incorporated herein by reference.

The Company does not currently have a "code of ethics" as defined under the Item 406 of Regulation S-K adopted by the SEC. The Company intends to adopt in the near future a code of business conduct and ethics applicable to all of its directors, officers and employees that satisfies the requirements of a "code of ethics" under SEC rules and also satisfies the requirements of Nasdaq Marketplace Rule 4350(n). To the extent permitted by applicable rules of the SEC and the Nasdaq Stock Market, Inc., we intend to satisfy the disclosure requirements under Item 10 of Form 8-K regarding an amendment to, or waiver from, a provision of the code of business conduct and ethics with respect to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, by posting such information on our website.

ITEM 11. EXECUTIVE COMPENSATION

Directors who are not employees of the Company are paid an annual fee of $6,000. The Chairman of the Compensation Committee and the Audit Committee are also paid an additional annual fee of $1,000. The Company does not have any employment agreements with any employee.

The following table provides certain summary information regarding compensation of the Company's Chief Executive Officer and each of the executive officers of the Company for the periods indicated.

NAME AND PRINCIPAL POSITION	YEAR	ANNUAL COMPENSATION SALARY	BONUS (A)	OTHER (B)	LONG-TERM COMPENSATION CLASS A STOCK OPTIONS	A CO
Henry W. Nozko, Jr.	2003	$ 402,477	$ 330,000	$ ---	---	$
Chairman, President and Chief	2002	$ 371,925	$ 135,000	$ 365,233	65,500	$
Executive Officer	2001	$ 337,833	$ ---	$ ---	---	$
Michael P. Cifone	2003	$ 196,899	$ 290,000	$ ---	---	$
Senior Vice President and Chief	2002	$ 176,347	$ 135,000	$ ---	40,000	$
Financial Officer	2001	$ 160,333	$ ---	$ ---	---	$
Robert H. Frazer, Esq.	2003	$ 200,932	$ 160,000	$ ---	---	$
Vice President, Secretary and	2002	$ 151,314	$ 25,000	$ ---	20,000	$
General Counsel	2001	$ 115,185	$ ---	$ ---	---	$

(A) Represents a bonus earned in a reporting year and paid in the subsequent year. Individual discretionary bonuses are paid to various officers and employees.

(B) Does not include the aggregate amount of perquisites and other personal benefits, which was less than the lesser of $50,000 or 10% of the total salary and bonus reported. Henry W. Nozko, Jr. was paid $365,233 for unused vacation time which was payable only from the proceeds of the life insurance policies owned by the Company on Henry W. Nozko, Sr.

(C) The amounts shown in this column represent contributions made by the Company to the Company's 401(K) Plan. All nonunion employees employed on a full time or part time salaried basis are eligible to participate on the first day of January or July after twelve consecutive months of employment. The Company contributes amounts, as determined by the Board of Directors, to be allocated among the participants according to a formula based upon the employee's years of service and compensation. A participant becomes vested at the rate of 20% per year commencing after two years of service.

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The following table provides information on options during 2003 by the named Executive Officers and the value of their unexercised options at December 31, 2003.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR
END 2003 OPTION VALUES

Name	Number of Unexercised Options at 12/31/03 (1) Exercisable/Unexercisable	Value of U In-the-Mon at 12/31 Exercisable
Henry W. Nozko, Jr.		
- ACMAT Class A Stock Options	76,500/40,000	$364,65
- ACMAT Common Stock Options	50,000/-	$50,000
Michael P. Cifone		
- ACMAT Class A Stock Options	28,000/32,000	$135,80
Robert H. Frazer		
- ACMAT Class A Stock Options	39,000/16,000	$201,65

(1) Represents the number of options held at year end.

(2) Represents the total gain that would have been realized if all options for which the year-end stock price was greater than the exercise price were exercised on the last day of the year.

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ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT:

As of March 1, 2004, no person was known to the Company to be the beneficial owner of more than five percent of its outstanding shares of Common Stock or Class A Stock except as set forth in the following table which also shows, as of that date, the total number of shares of each class of stock of the Company beneficially owned, and the percent of the outstanding class of stock so owned, by each director, and by all directors and officers of the Company, as a group:

BENEFICIAL OWNER	CLASS OF STOCK	NUMBER OF SHARES BENEFICIALLY OWNED (1)	PERCENTAGE OF CLASS OUTSTANDING	PERCE OF T VOTING P
Victoria C. Nozko	Common	310,780	56.88%	
	Class A	67,000(3)	3.77	
Henry W. Nozko, Jr.	Common	229,099(2)(4)	38.42	
	Class A	226,874(2)(5)	12.21	
John C. Creasy	Class A	26,500(6)	1.50	
Arthur R. Moore	Class A	11,500(7)	.66	
Henry W. Nozko III	Common	9,100(9)	1.67	
	Class A	33,650(8)	1.91	
Andrew W. Sullivan, Jr.	Class A	100	.01	
Franklin Resources, Inc.	Class A	392,800(10)	22.55	
Third Avenue Management	Class A	200,678(11)	11.52	
First Manhattan Co.	Class A	165,763(12)	9.52	
Robotti & Company, Inc.	Class A	129,040(13)	7.41	
Vanguard Group, Inc.	Class A	114,623(14)	6.58	

All Directors and Officers (7 persons) As a Group	Common	507,479(15)	91.33
	Class A	162,740(15)	9.22

(1) The person listed has the sole power to vote the shares of Common Stock and Class A Stock listed above as beneficially owned by such person and has sole investment power with respect to such shares.

(2) Does not include 400 shares of Class A Stock and 9,100 shares of Common Stock held by his wife, Gloria C. Nozko.

(3) Includes options to purchase 35,000 shares of Class A Stock.

(4) Includes options to purchase 50,000 shares of Common Stock.

(5) Includes options to purchase 116,500 shares of Class A Stock.

(6) Includes options to purchase 26,500 shares of Class A Stock.

(7) Includes option to purchase 11,500 shares of Class A Stock.

(8) Includes options to purchase 20,000 shares of Class A Stock.

(9) Does not include 1,000 shares of Common Stock held by his wife, Sage Nozko.

(10) As reported in schedule 13G/A filed on February 9, 2004. Address of Franklin Resources, Inc. is 777 Mariners Island Blvd. San Mateo, CA 94404

(11) As reported in schedule 13G/A filed on January 9, 2004. Address of Third Avenue Management LLC is 767 Third Avenue, New York, NY 10017-2023.

(12) As reported in schedule 13G/A filed on February 12, 2004.Address of First Manhattan Co. is 437 Madison Avenue, New York, NY 10022.

(13) As reported in schadule 13G/A filed on February 13, 2004. Address of Robotti & Company, Inc. is 52 Vanderbilt Avenue, Suite 503, New York, NY 10017.

(14) Address of Vanguard Group, Inc. is 100 Vanguard Blvd. Malvern, PA 19355.

(15) Excludes options to purchase shares of Common and Class A Stock.

(16) Based upon one vote for each share of Common Stock and one-tenth vote for each share of Class A Stock.

Certain information required by this Item 12 is set forth in the proxy statement under the heading "Equity Compensation Plan Information," which information is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS:

Other Relationships

During the year ended December 31, 2003, the Company paid to Dr. Arthur Cosmas $155,700 in fees in connection with consulting services rendered by Dr. Cosmas with respect to inspection and engineering services relating to ACMAT's environmental activities. Dr. Cosmas is the son-in-law of Victoria C. Nozko, the brother-in-law of Henry W. Nozko, Jr. and uncle of Henry W. Nozko III.

Item 14. Principal Accountant Fees and Services

The information required by this Item 14 is set forth in the proxy statement under the heading "Disclosure of Audit Fees" in the section entitled "Appointment of Auditors," which information is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) 1. Consolidated Financial Statements

Included in Part II of this Report:

Independent Auditors' Report

Consolidated Statements of Earnings for the years ended December 31, 2003, 2002 and 2001 Consolidated Balance Sheets as of December 31, 2003 and 2002 Consolidated Statements of Stockholders' Equity for the years ended December 31, 2003, 2002 and 2001 Consolidated Statements of Cash Flows for the years ended December 31, 2003, 2002 and 2001 Notes to Consolidated Financial Statements - December 31, 2003, 2002 and 2001

2. Financial Statement Schedules

Consolidated Schedules included in Part II of this Report-Years ended December 31, 2003, 2002 and 2001:

I - Condensed Financial Information of Registrant

II - Valuation and Qualifying Accounts and Reserves

V - Supplemental Information Concerning Property-Casualty Insurance Operations

All other schedules are omitted as the required information is not applicable or the information is presented in the Consolidated Financial Statements or related notes.

(b) Reports on Form 8-K

The Company did not file a report on Form 8-K during the fourth quarter of 2003.

(c) Exhibits

(3) Certificate Amending and Restating the Company's Bylaws as filed as an Exhibit to the Company's Form 10-Q for the Quarter ended March 31, 1989 is incorporated herein by reference.

(3a)	Certificate Amending and Restating the Company's Certificate of Incorporation as amended May 1, 1991 as filed as an Exhibit to the Company's Form 10-Q for the Quarter ended March 31, 1991 is incorporated by reference.
(3b)	Promissory Note between ACMAT Corporation and Webster Bank as filed as an Exhibit to the Company's Form 10-K for the year ended December 31, 1998 is incorporated by reference.
(3c)	Open-end Mortgage Deed and Security Agreement between ACMAT Corporation and Webster Bank as filed as an Exhibit to the Company's Form 10-K for the year ended December 31, 1999 is incorporated by reference.
(3d)	Amended and Restated Commercial Credit Agreement between ACMAT Corporation, Webster Bank and Fleet National Bank as filed as an Exhibit to the Company's Form 10-K for the year ended December 31, 2002 is incorporated by reference.
(3e)	Revolving Credit Note between ACMAT Corporation and Webster Bank as filed as an Exhibit to the Company's Form 10-K for the year ended December 31, 2002 is incorporated by reference.
(3f)	Term Note dated September 1, 1999 between ACMAT Corporation and Webster Bank as filed as an Exhibit to the Company's Form 10-K for the year ended December 31, 1999 is incorporated by reference.
(3g)	Term Note II dated December 17, 2001, between ACMAT Corporation and Webster Bank as filed as an Exhibit to the Company's Form 10-K for the year ended December 31, 2001 is incorporated by reference.
(3h)	Revolving Credit Note between ACMAT Corporation and Fleet National Bank as filed as an Exhibit to the Company's Form 10-K for the year ended December 31, 2002 is incorporated by reference.
4(i)	Term Note III dated November 22, 2002 between ACMAT Corporation and Webster Bank as filed as an Exhibit to the Company's Form 10-K for the year ended December 31, 2002 is incorporated by reference.
4(j)	Term Note III dated November 22, 2002 between ACMAT Corporation and Fleet National Bank as filed as an Exhibit to the Company's Form 10-K for the year ended December 31, 2002 is incorporated by reference.
(21)	Subsidiaries of ACMAT is filed herewith.
(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 is filed herewith.

(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 is filed herewith.

(32) Certification of Henry W. Nozko, Jr., Chief Executive Officer, and Michael P. Cifone, Chief Financial Officer, as required by Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Registrant had duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

ACMAT CORPORATION

Dated: March 30, 2004

By: /s/ Henry W. Nozko, Jr.

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ Henry W. Nozko, Jr Henry W. Nozko, Jr.	Chairman of the Board, President, Chief Executive Officer and Director	March 30, 2004
/s/ Michael P. Cifone Michael P. Cifone	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 30, 2004
/s/ Victoria C. Nozko Victoria C. Nozko	Director	March 30, 2004
/s/ John C. Creasy John C. Creasy	Director	March 30, 2004
/s/Henry W. Nozko III Henry W. Nozko III	Director	March 30, 2004
/s/ Andrew W. Sullivan, Jr. Andrew W. Sullivan, Jr.	Director	March 30, 2004

INDEX TO EXHIBITS

Regulation S-K Exhibit		Description	Page Numbe
Exhibit 3	-	Bylaws	Incorporated by R
Exhibit 3a	-	Certificate of Incorporation as amended May 1, 1991	Incorporated by R
Exhibit 4b	-	Promissory Note between ACMAT and Webster Bank	Incorporated by R
Exhibit 4c	-	Open-end Mortgage Deed/Security Agreement between ACMAT and Webster Bank.	Incorporated by R
Exhibit 4d	-	Amended and Restated Commercial Credit Agreement between ACMAT, Webster Bank and Fleet National Bank	Incorporated by R
Exhibit 4e	-	Revolving Credit Note between ACMAT and Webster Bank	Incorporated by R
Exhibit 4f	-	Term Note between ACMAT and Webster Bank	Incorporated by R
Exhibit 4g	-	Term Note II between ACMAT and Webster Bank	Incorporated by R
Exhibit 4h	-	Revolving Credit Note between ACMAT and Fleet National Bank	Incorporated by R
Exhibit 4i	-	Term Note III between ACMAT and Webster Bank	Incorporated by R
Exhibit 4j	-	Term Note III between ACMAT and Fleet National Bank	Incorporated by R
Exhibit 21	-	Subsidiaries of ACMAT	Page 68
Exhibit 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	Page 69
Exhibit 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	Page 70
Exhibit 32	-	Certification of Henry W. Nozko, Jr., Chief Executive Officer and Michael P. Cifone, Chief Financial Officer, as required by Section 906 of the Sarbanes-Oxley Act of 2002	Page 71