ACMAT CORP
Form 10-Q
August 13, 2004

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended June 30, 2004

OR

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

For the transition period from _______ to _______

Commission file number 0-6234

ACMAT CORPORATION

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

233 Main Street, New Britain, Connecticut 06050-2350
(Address of principal executive offices)

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

NONE
(Former name, former address and former fiscal year, if changed since last report)

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

Yes [X] No [ ]

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

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

Title of Class	Shares outstanding at July 31, 2004

Common Stock	545,329
Class A Stock	1,772,978

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ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets

Assets	June 30, 2004 (Unaudited)
Investments:	
Fixed maturities-available for sale at fair value (Cost of $49,448,670 in 2004 and $53,057,097 in 2003)	$ 49,046,330
Equity securities, at fair value (Cost of $11,700,634 in 2004 and $10,240,559 in 2003)	11,072,871
Short-term investments, at cost which approximates fair value	21,675,488
Total investments	81,794,689
Cash and cash equivalents	35,656,439
Accrued interest receivable	425,187

Receivables, net of allowance for doubtful accounts of $360,606 in 2004 and $302,606 in 2003	3,006,626
Reinsurance recoverable:	
Unpaid losses	3,531,055
Paid losses	165,664
Prepaid expenses	123,509
Income tax receivable	--
Deferred income taxes	2,417,361
Property & equipment, net	10,911,129
Deferred policy acquisition costs	1,719,258
Other assets	2,969,168
Intangibles	1,920,360
	144,640,445
Liabilities & Stockholders' Equity	
Accounts payable	2,579,386
Reserves for losses and loss adjustment expenses	22,392,221
Unearned premiums	6,612,473
Collateral held	52,257,201
Income taxes	280,738
Accrued liabilities	903,451
Long-term debt	17,634,733
Total liabilities	102,659,203
Stockholders' Equity:	
Common Stock (No par value; 3,500,000 shares authorized; 545,329 and 549,355 shares issued and outstanding)	545,329
Class A Stock (No par value; 10,000,000 shares authorized; 1,772,978 and 1,742,705 shares issued and outstanding)	1,772,978
Retained earnings	40,630,762
Accumulated other comprehensive income (loss)	(967,827)
Total stockholders' equity	$ 41,981,242
	$ 144,640,445

See Notes to Unaudited Consolidated Financial Statements.

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ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Earnings (Unaudited)

	Three months ended June 30		Six months ended June 30	
	2004	2003	2004	2003
Contract revenues	$2,933,947	286,820	5,258,474	1,011,
Earned premiums	3,527,510	3,118,193	6,927,094	5,377,
Investment income, net	766,602	620,919	1,518,317	1,255,
Net realized capital gains	20,651	22,649	20,651	248,

Other income	197,235	303,597	363,561	464,
	7,445,945	4,352,178	14,088,097	8,357,
Cost of contract revenues	2,895,480	305,244	5,205,496	943,
Losses and loss adjustment expenses	1,407,142	1,077,195	2,789,432	1,863,
Amortization of policy acquisition costs	616,860	597,346	1,266,116	1,024,
General and administrative expenses	1,239,823	1,322,413	2,490,247	2,617,
Interest expense	224,350	267,049	458,708	554,
	6,383,655	3,569,247	12,209,999	7,003,
Earnings before income taxes	1,062,290	782,931	1,878,098	1,354,
Income taxes	377,579	278,341	674,063	471,
Net earnings	$ 684,711	504,590	1,204,035	882,
Basic earnings per share	$ .30	.22	.52	
Diluted earnings per share	$ .29	.22	.51	

See Notes to Unaudited Consolidated Financial Statements.

ACMAT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Unaudited)
June 30, 2004 and 2003

	Common Stock Par Value	Class A Stock Par Value	Retained Earnings
Balance as of December 31, 2002	$ 553,355	1,756,405	37,972,590
Comprehensive income:			
Net unrealized gains on debt and equity securities, net of reclassification	--	--	--
Net unrealized losses on derivatives qualifying as cash flow hedges	--	--	--
Net earnings	--	--	882,177
Total comprehensive income			

Acquisition and retirement of 2,000 shares of Common Stock	(2,000)	--	(18,650
Acquisition and retirement of 11,300 shares of Class A Stock	--	(11,300)	(82,210
Balance as of June 30, 2003	$ 551,355	1,745,105	38,753,907
Balance as of December 31, 2003	$ 549,355	1,742,705	39,438,778
Comprehensive income:			
Net unrealized losses on debt and equity securities, net of reclassification	--	--	--
Net unrealized gains on derivatives qualifying as cash flow hedges	--	--	--
Net earnings	--	--	1,204,035
Total comprehensive income (loss)			
Acquisition and retirement of 4,026 shares of Common Stock	(4,026)	--	(42,580
Acquisition and retirement of 53,727 shares of Class A Stock	--	(53,727)	(651,721
Exercise of 84,000 shares of Class A Stock pursuant to Stock options	--	84,000	682,250
Balance as of June 30, 2004	$ 545,329	1,772,978	40,630,762

See Notes to Unaudited Consolidated Financial Statements.

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Unaudited)
Six Months Ended June 30, 2004 and 2003

	2004	2003
Cash flows from operating activities:		
Net earnings	$ 1,204,035	882,177
Adjustments to reconcile net earnings to net cash used for operating activities:		
Depreciation and amortization	381,357	766,226
Net realized capital gains	(20,651)	(248,771
Deferred income taxes	103,720	88,836
Changes in:		

Accrued interest receivable	(83,736)	85,481
Reinsurance recoverable	3,006,937	(1,519,156
Receivables, net	(783,655)	(276,557
Deferred policy acquisition costs	(79,933)	(449,528
Prepaid expenses and other assets	482,550	550,932
Accounts payable and other accrued liabilities	1,273,014	(1,133,449
Reserves for losses and loss adjustment expenses	1,543,655	262,051
Collateral held	10,538,976	9,259,769
Income taxes, net	605,502	166,624
Unearned premiums	255,026	1,903,297
Net cash provided by operating activities	18,426,789	10,338,203
Cash flows from investing activities:		
Proceeds from investments sold or matured:		
Fixed maturities-sold	1,100,000	6,652,707
Fixed maturities-matured	8,748,425	20,481,634
Equity securities	1,522,629	2,082,649
Purchases of:		
Fixed maturities	(6,343,863)	(25,656,946
Equity securities	(2,950,695)	(3,100,000
Short-term investments, net	(20,914,616)	(18,225,381
Capital expenditures	(4,610)	(97,906
Net cash used for investing activities	(18,842,730)	(17,863,243
Cash flows from financing activities:		
Repayments on long-term debt	(1,472,560)	(1,197,289
Issuance of Class A Stock	609,000	--
Payments for acquisition & retirement of stock	(752,054)	(114,160
Net cash used for financing activities	(1,615,614)	(1,311,449
Net change in cash	(2,031,555)	(8,836,489
Cash at beginning of period	37,687,994	18,724,560
Cash at end of period	$ 35,656,439	9,888,071

See Notes to Unaudited Consolidated Financial Statements.

ACMAT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS:

(1) Financial Statements

The consolidated financial statements include the accounts of ACMAT Corporation ("ACMAT" or the "Company") and its subsidiaries. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and are unaudited.

The interim financial information contained in this report has been prepared from the books and records of the Company and its subsidiaries and reflects, in the opinion of the management of the Company, all adjustments (consisting of normal and recurring accruals) necessary to fairly present results of operations for the periods indicated. All significant intercompany accounts and transactions have been eliminated in consolidation.

These statements should be read in conjunction with the financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2003. Certain reclassifications have been made to prior years 10-Q financial statements to conform to current year presentation.

(2) Earnings Per Share

The following is a reconciliation of the numerators and denominators of the basic and diluted EPS computations for the three-month periods ended June 30, 2004 and 2003:

2004:	Earnings	Weighted Average Shares Outstanding	Per-Share Amount
Basic EPS:			
Earnings available to stockholders	$ 684,711	2,313,004	$.30
Effect of Dilutive Securities:			
Stock options	--	70,229	
Diluted EPS:			
Earnings available to stockholders	$ 684,711	2,383,233	$.29
2003:			
Basic EPS:			
Earnings available to stockholders	$ 504,590	2,301,734	$.22
Effect of Dilutive Securities:			
Stock options	--	15,591	
Diluted EPS:			
Earnings available to stockholders	$ 504,590	2,317,325	$.22

The following is a reconciliation of the numerators and denominators of the basic and diluted EPS computations for the six-month periods ended June 30, 2004 and 2003:

Weighted

2004:	Earnings	Average Shares Outstanding	Per-Share Amount
Basic EPS:			
Earnings available to stockholders	$1,204,035	2,301,357	$.52
Effect of Dilutive Securities:			
Stock options	--	64,495	
Diluted EPS:			
Earnings available to stockholders	$1,204,035	2,365,852	$.51
2003:			
Basic EPS:			
Earnings available to stockholders	$ 882,177	2,304,918	$.38
Effect of Dilutive Securities:			
Stock options	--	17,832	
Diluted EPS:			
Earnings available to stockholders	$ 882,177	2,322,750	$.38

(3) Supplemental Cash Flow Information

Income taxes refunds received during the six months ended June 30, 2004 was $35,159 compared to income taxes paid of $216,100 for the six months ended June 30, 2003. Interest paid for the six months ended June 30, 2004 and 2003 was $461,167 and $559,451, respectively.

(4) Comprehensive Income (Loss)

The following table summarizes reclassification adjustments for other comprehensive income (loss) and the related tax effects for the six months ended June 30, 2004 and 2003:

	2004
Unrealized losses on investments:	
Unrealized holding losses arising during period	$(1,411,862)
Less reclassification adjustment for gains included in net income, net of income tax expense of $7,021 and $84,582 for 2004 and 2003, respectively	13,630
Unrealized gain (loss) on derivatives qualifying as cash flow hedges	106,325
Other comprehensive income (loss)	$(1,319,167)

(5) Stock-Based Compensation

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

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

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

The pro forma fair value of stock-based compensation in the Company's Class A Shares for the three and six months ended June 30, 2004 and 2003 is as follows:

	Three Months Ended	
	2004	2003
Net earnings as reported	$ 684,711	504,590
Add: Stock-based employee compensation reported in net earnings, net of related tax effects	--	--
Deduct: Stock-based compensation expense determined under fair value based method, net of related tax effects	(37,083)	(32,067)
Net earnings, pro forma	$ 647,628	472,523
Earnings per share		
Basic and diluted - as reported	$.30/$.29	$.22/$.22
Basic and diluted - pro forma	$.28/$.27	$.21/$.20

The significant assumptions used during the year in estimating the fair value on the date of the grant for options and granted in 2004 were as follows:

	2004
Expected life of stock options, in years	9
Expected volatility of ACMAT stock	44%
Risk-free interest rate	1.0
Expected annual dividend yield	--
Expected annual forfeiture rate	--

No options were granted in 2003.

(6) Investments

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 also makes investments in collateralized mortgage obligations (CMOs).

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.

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 is 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 June 30, 2004 were as follows:

	Less than 12 months	12 months or longe

	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unreali Loss
Fixed maturities:				
United States government and government agencies	$ 4,517,859	62,947	7,128,559	129
Mortgage-backed securities	7,353,332	214,606	7,406,750	190
Industrial and miscellaneous	1,776,422	33,578	3,851,500	148
Total fixed maturities	13,637,613	311,131	18,386,809	468
Equity securities - common stocks:	175,700	9,300	--	
Equity securities - redeemable preferred:	4,155,120	444,880	2,877,080	222
Total equity	4,330,820	454,180	2,877,080	222
Total temporarily impaired securities	$17,968,433	765,311	21,263,889	691

For debt securities which are in an unrealized loss position as of June 30, 2004 these are losses generated by the increase in interest rates from the time these securities were acquired. Our primary investment practice is to buy and hold securities for the long term. Due to swings in the interest rate cycle, from time to time we recognize there will be temporary unrealized gains and losses in these fixed rate securities. Due to the positive cash flow nature of our business, we have the ability and intent to hold these securities to maturity and redemption at full par value. The Company has determined that all unrealized losses at June 30, 2004 are temporary impairments.

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(7) Accounting Changes

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 was 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 adoption of FIN 46R did not have any impact on the Company's results of operations or financial condition as no consolidation was required.

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.

(8) Segment Reporting

The Company has three reportable operating segments: ACMAT Contracting, ACSTAR Bonding and United Coastal Liability Insurance. The Company's reportable segments are primarily the three main legal entities of the Company, which offer different products and services. The accounting policies of the segments are the same as those described in the summary of significant accounting policies in the Company's annual report on Form 10-K.

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

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

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

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The Company evaluates performance based on earnings before income taxes and excluding interest expense. The Company accounts for intersegment revenue and expenses as if the products/services were to third parties. Information relating to the three segments for the three and six-month periods ended June 30, 2004 and 2003 is summarized as follows:

	Three Months ended 2004	Three Months ended 2003	Six Months ended 2004	Six Months ended 2003
Revenues:				
ACSTAR Bonding	$ 2,148,587	1,800,826	4,042,623	3,548
United Coastal Liability Insurance	2,071,347	1,754,968	4,235,079	3,154
ACMAT Contracting	3,931,550	1,497,810	7,061,214	2,909
	$ 8,151,484	5,053,604	15,338,916	9,613
Operating Earnings (Loss):				
ACSTAR Bonding	$ 745,946	402,102	1,381,511	1,073
United Coastal Liability Insurance	477,919	457,252	1,042,778	892
ACMAT Contracting	62,775	190,626	(87,483)	(57
	$ 1,286,640	1,049,980	2,336,806	1,908
Depreciation and Amortization:				
ACSTAR Bonding	$ 51,205	189,095	107,619	319
United Coastal Liability Insurance	14,146	57,693	44,494	203
ACMAT Contracting	114,478	122,004	229,244	243
	$ 179,829	368,792	381,357	766

Identifiable Assets:	June 30, 2004	December 31, 2003
ACSTAR Bonding	$ 86,753,237	73,704,644
United Coastal Liability Insurance	39,963,974	41,015,316
ACMAT Contracting	17,923,234	17,709,897
	$144,640,445	132,429,857

The components of revenue for each segment for the three and six-month periods ended June 30, 2004 and 2003 are as follows:

	Three Months ended 2004	Three Months ended 2003	Six Months ended 2004	Six Months ended 200
ACSTAR Bonding:				
Premiums	$ 1,783,021	1,700,822	3,370,604	2,87
Investment income, net	384,263	248,840	724,494	57
Capital gains	20,651	22,649	20,651	20
Other	(39,348)	(171,485)	(73,126)	(10
	$ 2,148,587	1,800,826	4,042,623	3,54

United Coastal Liability Insurance:

Premiums	$ 1,744,489	1,417,371	3,556,490	2,49
Investment income, net	320,571	326,008	665,752	59
Capital gains	--	--	--	4
Other	6,287	11,589	12,837	1
	$ 2,071,347	1,754,968	4,235,079	3,15
ACMAT Contracting:				
Contract revenues	$ 2,933,947	286,820	5,258,474	1,01
Investment income, net	3,240	1,818	6,956	
Intersegment revenue:				
Rental income	248,247	232,040	426,949	41
Underwriting services, agency commissions and funds administration services	626,818	718,971	1,134,101	1,13
Other	119,298	258,161	218,084	34
	$ 3,931,550	1,497,810	7,061,214	2,90

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The following is a reconciliation of segment totals for revenue and operating income to corresponding amounts in the Company's statement of earnings:

	Three Months ended		Six Months end	
Revenue:	2004	2003	2004	2
Total revenue for reportable segments	$8,151,484	5,053,604	15,338,916	9,6
Intersegment eliminations	705,539	701,426	1,250,819	1,2
	$7,445,945	4,352,178	14,088,097	8,3

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

Operating Earnings:				
Total operating earnings for reportable segments	$ 1,286,640	1,049,980	2,336,806	1,9
Interest expense	(224,350)	(267,049)	(458,708)	(5
	$ 1,062,290	782,931	1,878,098	1,3

Operating earnings for ACMAT contracting are operating revenues less cost of contract revenues and identifiable selling, general and administrative expenses. Operating earnings for the bonding and liability insurance segments are revenues less losses and loss adjustment expenses, amortization of policy acquisition costs and identifiable, general and administrative expenses.

ACMAT CORPORATION

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

Management's discussion and analysis (MD&A) reviews our consolidated and segment financial condition as of June 30, 2004 and December 31, 2003, our consolidated results of operations for the three and six-month periods ended June 30, 2004 and 2003 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 in the Company's annual report on Form 10-K for the year ended December 31, 2003.

EXECUTIVE SUMMARY

2004 Consolidated Results of Operations for the three months ended June 30, 2004 reflect:

- Net earnings of $684,711, or $.30 per share basic and $.29 per share diluted.
- Earned premiums increased 13%.
- Favorable insurance premium rate environment.
- Higher interest income and lower interest expense.
- Higher construction contract revenues

2004 Financial Condition:

- Total assets of $144.6 million, up $12.2 million from the prior year-end.
- Total cash and invested assets of $117.4 million, up $15.1 million from the prior year-end.
- Stockholders' Equity of $42 million, down $.1 million from the prior year-end reflecting decline in unrealized gains in investment portfolio.
- Total debt reduced to $17.6 million from $19.1 million.
- Cash flow provided from operations of $18.4 million, up from $10.3 million in the same period last year.

CONSOLIDATED OVERVIEW FOR THE THREE MONTHS ENDED JUNE 30, 2004:

	Three months ended June 30, 2004	Three months ended June 30, 2003
Net Earnings	$684,711	504,590
Basic Earnings Per Share	$ .30	$ .22
Diluted Earnings Per Share	$ .29	$ .22

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

Net earnings were $684,711 or $.30 per share basic and $.29 per share diluted for the three months ended June 30, 2004 compared to $504,590 or $.22 per share basic and $.22 per share diluted for the same period in 2003. The increase in net earnings for 2004 compared to 2003 is primarily due to an increase in earned premiums, contract revenue and investment income. Net earnings for 2004 reflected the continuing favorable environment for the insurance operations in 2003 and 2004.

Consolidated revenues were as follows:

	Three months ended June 30,	
	2004	2003
Contract revenues	$2,933,947	286,820
Earned premium	3,527,510	3,118,193
Investment income	766,602	620,919
Net realized capital gains	20,651	22,649
Other income	197,235	303,597
Consolidated revenues	$7,445,945	4,352,178

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Total consolidated revenues increased $3,093,767 or 71% for the three months ended June 30, 2004 compared to the same period in 2003.

Contract revenues increased $2,647,127 or 923% for the three months ended June 30, 2004 compared to the same period in 2003 due primarily to the timing of four large projects that were awarded in late 2003. Contract revenue depends greatly on the successful securement of contracts bid and execution. The backlog at June 30, 2004 was $6,500,000 compared to $9,680,000 at December 31, 2003.

Earned premiums increased $409,317 or 13% for the three months ended June 30, 2004 compared to the same period in 2003 due to a 24% increase in net written premiums in ACSTAR Bonding, primarily due to new business and strong customer retention, offset by a 31% decrease in 2004 net written premiums in United Coastal liability insurance. Net written premiums for United Coastal liability insurance business for the three months ended June 30, 2004 compared to the same period in 2003 decreased by 31% due to the non-renewal by several insureds with large premium policies in 2004.

Investment income increased $145,683 or 23% for the three months ended June 30, 2004 compared to the same period in 2003 due primarily to higher average invested assets resulting from strong cash flows from operations.

Net realized capital gains were $20,651 for the three months ended June 30, 2004 compared to $22,649 for the same period in 2003. The unrealized losses on the debt securities as of June 30, 2004 are temporary. These losses are generated by the increase in interest rates from the time these securities were acquired, therefore there are no other than temporary impairments for the three months ended June 30, 2004.

Other income decreased $106,362 or 35% for the three months ended June 30, 2004 compared to the same period in 2003. Other revenues consist primarily of rental income and 2003 also included a one-time claim administration fee charged to bonding customers.

Consolidated expenses for the three months ended June 30, 2004 were as follows:

	THREE MONTHS ENDED JUNE 30,	
	2004	2003
Cost of contract revenues	$2,895,480	305,244
Losses and loss adjustment expenses	1,407,142	1,077,195
Amortization of policy acquisition costs	616,860	597,346
General and administrative expenses	1,239,823	1,322,413
Interest expense	224,350	267,049
	$6,383,655	3,569,247

Consolidated expenses increased $2,814,408 or 79% for the three months ended June 30, 2004 compared to the same period in 2003.

Cost of contract revenues increased $2,590,236 or 849% for the three months ended June 30, 2004 compared to the same period in 2003. The 923% increase in contract revenues in 2004 is due to the timing of four large projects that were started later in 2003. The gross profit margin on construction projects was 1.3% in 2004 compared to a gross loss of 6.0% in 2003. Gross margins fluctuate each year based upon the profitability of specific projects.

Losses and loss adjustment expenses increased $329,947 or 31% for the three months ended June 30, 2004 compared to the same period in 2003 primarily due to the 13% increase in earned premiums and an increase in current year loss trends for liability insurance.

Amortization of policy acquisition costs increased $19,514 or 3% for the three months ended June 30, 2004 compared to the same period in 2003 primarily due to the increase in earned premiums offset in part by a decrease in the average commission rate.

General and administrative expenses decreased $82,590 or 6% for the three months ended June 30, 2004 compared to the same period in 2003 primarily due to a decrease in salary expense and depreciation expense.

Interest expense decreased $42,699 or 16% for the three months ended June 20, 2004 compared to the same period in 2003 primarily due to the decrease in long-term debt.

The Company's effective tax rate was 35.5% and 35.6% for the three months ended June 30 2004 and 2003, respectively.

Results of Operations by Segment For the Three Months Ended June 30, 2004:

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 in the Company's annual report on Form 10-K. 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.

	Three Months Ended June 30,	
ACSTAR BONDING:	2004	2003
Operating Earnings	$745,946	$402,102
GAAP Combined Ratio	78.7%	82.2%

Operating earnings for the ACSTAR Bonding segment increased $343,844 or 86% for the three month period ended June 30, 2004 compared to the same period in 2003. The operating earnings in 2004 benefited from an increase in earned premiums, investment income and a 3.5 point improvement in the GAAP combined ratio for the three month period ended June 30, 2004 compared to the same period in 2003. The improvement in the 2004 combined ratio results primarily from the increase in earned premiums.

ACSTAR Bonding revenues for the three months ended June 30, 2004 were as follows:

	Three Months ended June 30,	
	2004	2003
Earned premium	$ 1,783,021	1,700,822
Investment income	384,263	248,840
Net realized capital gains	20,651	22,649
Other income (expense)	(39,348)	(171,485)
	$ 2,148,587	1,800,826

Revenues increased $347,761 or 19% for the three month period ended June 30, 2004 compared to the same period in 2003.

Earned premiums increased $82,199 or 5% for the three month period ended June 30, 2004 compared to the same period in 2003 due to a 24% increase in net written premiums primarily due to a growth in new business and strong customer retention. ACSTAR continues to experience an increase in volume from an increase in business opportunities that meet ACSTAR's underwriting requirements.

Investment income increased $134,423 or 54% for the three month period ended June 30, 2004 compared to the same period in 2003 primarily as a result of higher average invested assets resulting from strong cash flows from operations. The average invested assets increased 37% to $77.8 million for the three months ended June 30, 2004 compared to the same period in 2003. The increase in investment income also resulted from an increase in investment yields to 1.98% in 2004 from 1.76% in 2003.

Net realized capital gains were $20,651 for the three months ended June 30, 2004 compared to $22,649 for the same period in 2003.

Other income (expense) relates primarily to fees received from customers related to funds administration services offset by the fees paid ACMAT to administer the Funds Administration services. Funds administration fees, which represent charges to bonding customers for administering payments to subcontractors and vendors, fluctuates depending on the terms and conditions offered and accepted for the bonding programs each year. The Funds Administration fees were $110,998 for the three months ended June 30, 2004 compared to $205,332 for the three months ended June 30, 2003.

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ACSTAR Bonding expenses for the three months ended June 30, 2004 compared to the same period in 2003 were as follows:

	Three Months ended June 30, 2004	2003
Losses and loss adjustment expenses	$ 534,897	510,247
Amortization of policy acquisition costs	541,229	564,737
General and administrative expenses	326,515	323,740
	$1,402,641	1,398,724

Expenses increased $3,917 or .3% for the three months ended June 30, 2004 compared to the same period in 2003.

Losses and loss adjustment expenses increased $24,650 or 5% for the three months ended June 30, 2004 compared to the same period in 2003 primarily due to the increase in earned premiums from higher business volume.

Amortization of policy acquisition costs decreased $23,508 or 4% for the three months ended June 30, 2004 compared to the same period in 2003 primarily as a result of the successful underwriting absorbing more of the fixed underwriting costs.

General and administrative expenses increased $2,775 or 1% for the three months ended June 30, 2004 compared to the same period in 2003.

UNITED COASTAL LIABILITY INSURANCE:

	Three Months ended June 30, 2004	2003
Operating Earnings	$ 477,919	$ 457,252
GAAP Combined Ratio	91.3%	91.6%

Operating earnings for the United Coastal Liability Insurance segment increased $20,667 or 5% for the three months ended June 30, 2004 compared to the same period in 2003. The operating earnings in 2004 benefited from a 23% increase in earned premiums offset in part by an increase in current year loss trends.

United Coastal Liability Insurance revenues for the three months ended June 30, 2004 compared to the same period in 2003 were as follows:

Three months ended June 30,

	2004	2003
Earned premium	$1,714,489	1,417,371
Investment income	320,571	326,008
Other income	6,287	11,589
	$2,071,347	1,754,968

Revenues increased $316,379 or 18% for the three months ended June 30, 2004 compared to the same period in 2003.

Earned premiums increased $327,118 or 23% in 2004 for the three months ended June 30, 2004 compared to the same period in 2003 due to a 73% increase in net written premiums in 2003 offset in part by a 22% decrease in written premiums in the first quarter of 2004. United Coastal business is comprised of insureds with relatively large premium policies and each quarter can be impacted significantly depending on the number of new policies written or non-renewals.

Investment income decreased $5,437 or 2% for the three months ended June 30, 2004 compared to the same period in 2003 as a result of lower average invested assets resulting from dividends to the parent company in November 2003.

United Coastal Liability Insurance expenses for the three months ended June 30, 2004 were as follows:

	Three Months ended June 30,	
	2004	2003
Losses and loss adjustment expenses	$ 872,245	566,948
Amortization of policy acquisition costs	431,289	400,020
General and administrative expenses	289,894	330,748
	$1,593,428	1,297,716

Expenses increased $295,712 or 23% for the three months ended June 30, 2004 compared to the same period in 2003.

Losses and loss adjustment expenses increased $305,297 or 54% for the three months ended June 30, 2004 compared to the same period in 2003 primarily due to the 23% increase in earned premiums and an increase in current year loss trends for liability insurance.

Amortization of policy acquisition costs increased $31,269 or 8% for the three months ended June 30, 2004 compared to the same period in 2003 primarily due to the 23% increase in earned premiums.

General and administrative expenses decreased $40,854 or 12% for the three months ended June 30, 2004 compared to the same period in 2003 primarily due to a decrease in depreciation expense.

	THREE MONTHS ENDED JUNE 30	
ACMAT CONTRACTING:	2004	2003

Operating Earnings	$ 62,775	$190,626

Operating earnings for the ACMAT Contracting segment decreased $127,851 or 67% for the three months ended June 30, 2004 compared to the same period in 2003.

ACMAT Contracting revenues for the three months ended June 30, 2004 were as follows:

	Three months ended June 30	
	2004	2003
Contract revenues	$2,933,947	286,820
Investment income, net	3,240	1,818
Inter-segment revenue:		
Rental income	248,247	232,040
Underwriting services, agency commissions and funds administration services	626,818	718,971
Other income	119,298	258,161
	$3,931,550	1,497,810

Contract revenues increased $2,647,127 or 923% for the three months ended June 30, 2004 compared to the same period a year ago due primarily to the timing of four large projects that were started in late 2003. Contract revenue depends greatly on the successful securement of contracts bid and execution. The backlog at June 30, 2004 was $6,500,000 compared to $9,680,000 at December 31, 2003.

Inter-segment revenues consists primarily of rental income and underwriting services, agency commissions and funds administration services. Underwriting services fees and agency commissions decreased $92,153 or 13% for the three months ended June 30, 2004 compared to the same period a year ago primarily due to the decrease in Funds Administration fees. Other income consists primarily of rental income and varies depending on the timing of tenants and their leases. Other income decreased $138,863 or 54% for the three months ended June 30, 2004 compared to the same period a year ago due to the absence of a one-time claim administration fee charged to ACSTA bonding customer.

ACMAT Contracting expenses for the three months ended June 30, 2004 were as follows:

	2004	2003
Cost of contract revenues	$2,895,480	305,244
General and administrative expenses	973,295	1,001,940
	$3,868,775	1,307,184

Expenses increased $2,561,591 or 196% for the three months ended June 30, 2004 compared to the same period a year ago.

Cost of contract revenues increased $2,590,236 or 848% for the three months ended June 30, 2004 compared to the same period a year ago primarily due to the 923% increase in contract revenues for the three months ended June 30, 2004 compared to the same period a year ago due to the timing of four large projects that were awarded in late 2003. The gross profit margin on construction projects was 1.3% in 2004 compared to a gross loss of 6.0% in 2003. Gross margins fluctuate each year based upon the profitability of specific projects.

General and administrative expenses decreased $28,645 or 3% for the three months ended June 30, 2004 compared to the same period a year ago primarily due to a decrease in salary expense and depreciation expense.

CONSOLIDATED OVERVIEW FOR THE SIX MONTHS ENDED JUNE 30, 2004:

	Six months ended June 30, 2004	2003
Net Earnings	$1,204,035	882,177
Basic Earnings Per Share	$ .52	$ .38
Diluted Earnings Per Share	$ .51	$ .38

Net earnings were $1,204,035 or $.52 per share basic and $.51 per share diluted for the six months ended June 30, 2004 compared to $882,177 or $.38 per share basic and $.38 per share diluted for the same period in 2003. The increase in net earnings for 2004 compared to 2003 is primarily due to an increase in earned premiums, contract revenue and investment income. Net earnings for 2004 reflected the continuing favorable rate environment for the insurance operations in 2003 and 2004.

Consolidated revenues for the six months ended June 30, 2004 were as follows:

	Six months ended June 30, 2004	2003
Contract revenues	$ 5,258,474	1,011,113
Earned premium	6,927,094	5,377,996
Investment income	1,518,317	1,255,238
Net realized capital gains	20,651	248,771
Other income	363,561	464,253
Consolidated revenues	$14,088,097	8,357,371

Total consolidated revenues increased $5,730,726 or 69% for the six months ended June 30, 2004 compared to the same period in 2003.

Contract revenues increased $4,247,361 or 420% for the six months ended June 30, 2004 compared to the same period in 2003 due primarily to the timing of four large projects that were awarded in late 2003. Contract revenue depends greatly on the successful securement of contracts bid and execution. The backlog at June 30, 2004 was $6,500,000 compared to $9,680,000 at December 31, 2003.

Earned premiums increased $1,549,098 or 29% for the six months ended June 30, 2004 compared to the same period in 2003 due to a 24% increase in net written premiums in ACSTAR Bonding primarily due to a growth in new business and strong customer retention offset by a 26% decrease in 2004 net written premiums in United Coastal liability insurance. Net written premiums for United Coastal liability insurance business for the six months ended June 30, 2004 compared to the same period in 2003 decreased by 26% due to the non-renewal by several insureds with large premium policies in 2004.

Investment income increased $263,079 or 21% for the six months ended June 30, 2004 compared to the same period in 2003 due primarily to higher average invested assets resulting from strong cash flows from operations.

Net realized capital gains were $20,651 for the six months ended June 30, 2004 compared to $248,771 for the same period in 2003. 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.

Other income decreased $100,692 or 22% for the six months ended June 30, 2004 compared to the same period in 2003. Other revenues consist primarily of rental income and funds administration fees charged to bonding customers.

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Consolidated expenses for the six months ended June 30, 2004 were as follows:

	SIX MONTHS ENDED JUNE 30,	
	2004	2003
Cost of contract revenues	$ 5,205,496	943,629
Losses and loss adjustment expenses	2,789,432	1,863,319
Amortization of policy acquisition costs	1,266,116	1,024,696
General and Administrative expenses	2,490,247	2,617,290
Interest expense	458,708	554,429
	$12,209,999	7,003,363

Consolidated expenses increased $5,206,636 or 74% for the six months ended June 30, 2004 compared to the same period in 2003.

Cost of contract revenues increased $4,261,867 or 452% for the six months ended June 30, 2004 compared to the same period in 2003 primarily due to the 420% increase in contract revenues in 2004 due to the timing of four large projects that were awarded later in 2003. The gross profit margin on construction projects was 1.0% in 2004 compared to a gross loss of 7.2% in 2003. Gross margins fluctuate each year based upon the profitability of specific projects.

Losses and loss adjustment expenses increased $926,113 or 50% for the six month ended June 30, 2004 compared to the same period in 2003 primarily due to the 29% increase in earned premiums and an increase in current year loss trends for liability insurance.

Amortization of policy acquisition costs increased $241,420 or 24% for the six months ended June 30, 2004 compared to the same period in 2003 primarily due to the increase in earned premiums offset in part by a decrease in the average commission rate.

General and administrative expenses decreased $127,043 or 5% for the six months ended June 30, 2004 compared to the same period in 2003 primarily due to a decrease in salary expense and depreciation expense.

Interest expense decreased $95,721 or 17% for the six months ended June 30, 2004 compared to the same period in 2003 primarily due to the decrease in long-term debt.

The Company's effective tax rate was 35.9% and 34.8% for the six months ended

June 30 2004 and 2003, respectively. The 2004 increase in the effective tax rate principally reflects the elimination of tax-exempt securities during the first quarter of 2003.

Results of Operations by Segment For the Six Months Ended June 30, 2004:

ACSTAR BONDING:	Six Months Ended June 30, 2004	2003
Operating Earnings	$ 1,381,511	$ 1,073,820
GAAP Combined Ratio	79.0%	86.0%

Operating earnings for the ACSTAR Bonding segment increased $307,691 or 29% for the six months ended June 30, 2004 compared to the same period in 2003. The operating earnings in 2004 benefited from an increase in earned premiums, investment income and a 7.0 point improvement in the GAAP combined ratio for the six months ended June 30, 2004 compared to the same period in 2003. The improvement in the 2004 combined ratio results primarily from the increase in earned premiums. Operating earnings for the six months ended June 30, 2004 also included realized capital gains of $20,651 compared to $202,794 for the same period in 2003.

ACSTAR Bonding revenues for the six months ended June 30, 2004 were as follows:

	Six Months ended June 30, 2004	2003
Earned premium	$ 3,370,604	2,878,796
Investment income	724,494	572,326
Net realized capital gains	20,651	202,794
Other income (expense)	(73,126)	(105,239)
	$ 4,042,623	3,548,677

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Revenues increased $493,946 or 14% for the six months ended June 30, 2004 compared to the same period in 2003.

Earned premiums increased $491,808 or 17% for the six months ended June 30, 2004 compared to the same period in 2003 due to a 24% increase in net written premiums primarily due to a growth in new business and strong customer retention. ACSTAR continues to experience an increase in volume from an increase in business opportunities that meet ACSTAR's underwriting requirements.

Investment income increased $152,168 or 27% for the six months ended June 30, 2004 compared to the same period in 2003 as a result of higher average invested assets resulting from strong cash flows from operations. The average invested assets increased 37% to $74.3 million for the six months ended June 30, 2004 compared to the same period in 2003. The increase in investment income was offset by a decrease in investment yields to 1.95% in 2004 from 2.11% in 2003.

Net realized capital gains were $20,651 for the six months ended June 30, 2004 compared to $202,794 for the same period in 2003. 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.

The unrealized losses on the debt securities as of June 30, 2004 are temporary. Those losses are generated by the increase in interest rates from the time these securities were acquired, therefore there are no other than temporary impairments for the six months ended June 30, 2004.

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 vendors fluctuates, depending on the terms and conditions offered and accepted for the bonding programs each year.

ACSTAR Bonding expenses for the six months ended June 30, 2004 compared to the same period in 2003 were as follows:

	Six Months ended June 30,	
	2004	2003
Losses and loss adjustment expenses	$1,011,187	863,639
Amortization of policy acquisition costs	1,035,778	996,905
General and administrative expenses	614,147	614,313
	$2,661,112	2,474,857

ACSTAR Bonding expenses increased $186,255 or 8% for the six months ended June 30, 2004 compared to the same period in 2003.

Losses and loss adjustment expenses increased $147,548 or 17% for the six months ended June 30, 2004 compared to the same period in 2003 primarily due to the increase in earned premiums from higher business volume.

Amortization of policy acquisition costs increased $38,873 or 4% for the six months ended June 30, 2004 compared to the same period in 2003.

General and administrative expenses decreased $166 for the six months ended June 30, 2004 compared to the same period in 2003.

UNITED COASTAL LIABILITY INSURANCE:

	Six Months ended June 30,	
	2004	2003
Operating Earnings	$ 1,042,778	$ 892,301
GAAP Combined Ratio	89.8%	90.5%

Operating earnings for the United Coastal Liability Insurance segment increased $150,477 or 17% for the six months ended June 30, 2004 compared to the same period in 2003. The operating earnings in 2004 benefited from a 42% increase in earned premiums offset in part by an increase in current year loss trends.

United Coastal Liability Insurance revenues for the six months ended June 30, 2004 compared to the same period in 2003 were as follows:

Six Months ended June 30,

	2004	2003
Earned premium	$3,556,490	2,499,200
Investment income	665,752	591,923
Net realized capital gains	--	45,977
Other income	12,837	17,283
	$4,235,079	3,154,383

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Revenues increased $1,080,696 or 34% for the six months ended June 30, 2004 compared to the same period in 2003.

Earned premiums increased $1,057,290 or 42% in 2004 for the six months ended June 30, 2004 compared to the same period in 2003 due to a 73% increase in net written premiums in 2003 offset in part by a 26% decrease in written premiums in the first quarter of 2004 due to the non-renewal by several insureds with large premium policies in 2004.

Investment income increased $73,829 or 12% for the six months ended June 30, 2004 compared to the same period in 2003 as a result of an increase in investment yield offset in part by lower average invested assets resulting from dividends to the parent company in November 2003. Investment yields increased to 3.91% for the six months ended June 30, 2004 from 3.29% for the same period a year ago.

United Coastal Liability Insurance expenses for the six months ended June 30, 2004 were as follows:

	Six Months ended June 30,	
	2004	2003
Losses and loss adjustment expenses	$1,778,245	999,680
Amortization of policy acquisition costs	877,365	693,733
General and administrative expenses	536,691	568,669
	$3,192,301	2,262,082

Expenses increased $930,219 or 41% for the six months ended June 30, 2004 compared to the same period in 2003.

Losses and loss adjustment expenses increased $778,565 or 78% for the six months ended June 30, 2004 compared to the same period in 2003 primarily due to the 42% increase in earned premiums and an increase in current year loss trends for liability insurance.

Amortization of policy acquisition costs increased $183,632 or 26% for the six months ended June 30, 2004 compared to the same period in 2003 primarily due to the 42% increase in earned premiums.

General and administrative expenses decreased $31,978 or 6% for the six months ended June 30, 2004 compared to the same period in 2003 primarily due to a decrease in depreciation expense.

SIX MONTHS ENDED JUNE 30

ACMAT CONTRACTING:	2004	2003
Operating Earnings (Loss)	$ (87,483)	$ (57,684)

Operating losses for the ACMAT Contracting segment increased $29,799 or 52% for the six months ended June 30, 2004 compared to the same period in 2003.

ACMAT Contracting revenues for the six months ended June 30, 2004 were as follows:

	Six Months ended June 30	
	2004	2003
Contract revenues	$5,258,474	1,011,113
Investment income, net	6,956	7,232
Inter-segment revenue:		
Rental income	426,949	410,742
Underwriting services, agency commissions and funds administration services	1,134,101	1,133,997
Other income	218,084	346,877
	$7,061,214	2,909,961

Contract revenues increased $4,247,361 or 420% for the six months ended June 30, 2004 compared to the same period a year ago due primarily to the timing of four large projects that were awarded in late 2003. Contract revenue depends greatly on the successful securement of contracts bid and execution. The backlog at June 30, 2004 was $6,500,000 compared to $9,680,000 at December 31, 2003.

Inter-segment revenues consists primarily of rental income and underwriting services fees, agency commissions and funds administration services. Underwriting services fees, agency commissions and funds administration services increased $104 for the six months ended June 30, 2004 compared to the same period a year ago. Other income consists primarily of rental income and varies depending on the timing of tenants and their leases. Other income decreased $128,359 or 23% for the six months ended June 30, 2004 compared to the same period a year ago due to the absence of a one-time claim administration fee charged to ACSTAR bonding customers.

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ACMAT Contracting expenses for the six months ended June 30, 2004 were as follows:

	2004	2003
Cost of contract revenues	$5,205,496	943,629
General and administrative expenses	1,943,201	2,024,016
	$7,148,697	2,967,645

Expenses increased $4,181,052 or 141% for the six months ended June 30, 2004 compared to the same period a year ago.

Cost of contract revenues increased $4,261,867 or 452% for the six months ended

June 30, 2004 compared to the same period a year ago primarily due to the 420% increase in contract revenues for the three months ended June 30, 2004 compared to the same period a year ago due to the timing of four large projects that were started in late 2003. The gross profit margin on construction projects was 0.2% in 2004 compared to 0.7% in 2003. The gross profit of the four current projects was offset by costs associated with closing out older projects. Gross margins fluctuate each year based upon the profitability of specific projects.

General and administrative expenses decreased $80,815 or 4% for the six months ended June 30, 2004 compared to the same period a year ago primarily due to a decrease in salary expense and depreciation expense.

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 $22,392,221 at June 30, 2004. 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 June 30, 2004 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. 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 operations and maintains a relatively high degree of liquidity in its investment portfolio. The primary sources of funds to meet the demands of claim settlements and operating expenses are premium collections, investment earnings and maturing investments. The Company has no material commitments for capital expenditures and, in the opinion of management, has adequate sources of liquidity to fund its operations over the next year.

ACMAT, exclusive of its subsidiaries, has incurred negative cash flows from operating activities primarily because of interest expense related to long-term debt incurred by ACMAT to acquire and capitalize its insurance subsidiaries and to repurchase Company stock.

ACMAT's principal sources of funds are dividends from its wholly-owned subsidiaries, insurance underwriting fees from its subsidiaries, construction contracting operations and rental income. Management believes that these sources of funds are adequate to service its indebtedness. ACMAT has relied on dividends from its insurance subsidiaries to repay debt.

The Company had net cash flow inflows from operations of $18,426,789 and $10,338,203 for the six-month period ended June 30, 2004 and 2003, respectively. The cash flow from operations is due primarily to the increase in cash collateral. The Company's cash flow was used to repay long-term debt and repurchase stock and purchase investments.

Net cash used for investing activities in the first six-months of 2004 amounted to $18,842,730 compared to $17,863,243 for the same period in 2003. Purchases of investments are made based upon excess cash available after the payment of losses and loss adjustment expenses and other 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.

The terms of the Company's note agreements contain limitations on payment of cash dividends, re-acquisition of shares, borrowings and investments and require maintenance of specified ratios and minimum net worth levels, including cross default provisions. The payment of future cash dividends and re-acquisition of shares are restricted. The Company was in compliance with the covenants at June 30, 2004.

The Company maintains a short-term unsecured bank credit line totaling $10 million to fund interim cash requirements. There were no borrowings under this line of credit as of June 30, 2004.

During the six-month period ended June 30, 2004, the Company purchased, in the open market and privately negotiated transactions, 4,026 shares of its Common Stock at an average price of $11.58 per share. During the six-month period ended June 30, 2004, the Company also purchased, in the open market and privately negotiated transactions, 53,727 shares of its Class A Stock at an average price of $13.13 per share.

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

State insurance departments, are limited to approximately $3,920,000 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 June 30, 2004 include the following:

Payment due by Period	Total	2004	2005/2006	2007/2008	Af
Long-Term Debt (principal)	$17,634,733	$ 1,235,836	$ 5,091,305	$ 5,359,166	$

The Company also has cash collateral of $52,257,201 at June 30, 2004, which it would be required to return at the end of expiration of applicable bond period subject to any claims.

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;

- Performance of the Company's investment portfolios which could be adversely impacted by adverse developments in the financial markets, interest rates and rates of inflation;

- 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.

- The adverse developments in the cost and availability of reinsurance;

- The adverse developments in the ability to collect from reinsurers.

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Part II - Other Information

Item 2 - Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities

e. The following table provides information about purchases by the Company during the six months ended June 30, 2004 of equity securities that are registered by the company pursuant to Section 12 of the Exchange Act.

ISSUER PURCHASE OF EQUITY SECURITIES

	(a)		(b)		(c)	(d)
Period	Total Number of Shares (or Units) Purchased (1)		Average Price Paidper Share(or Unit)		Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (2)	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (2)
	Common	Class A	Common	Class A		
1/01/04 - 1/31/04	526	1,026	$11.75	$12.63	N/A	N/A
2/01/04 - 2/29/04	1,500	--	$11.75	--	N/A	N/A
3/01/04 - 3/31/04	--	--	--	--	N/A	N/A
4/01/04 - 4/30/04	2,000	52,701	$11.40	$13.14	N/A	N/A
5/01/04 - 5/31/04	--	--	--	--	N/A	N/A
6/01/04 - 6/30/04	--	--	--	--	N/A	N/A
TOTAL	4,026	53,727	$11.58	$13.13		

(1) During the six-months ended June 30, 2004, the Company purchased, in the open market and privately negotiated transactions, 4,026 shares of its Common Stock at an average price of $11.58 per share. In addition, the Company purchased, in the open market and privately negotiated transactions, 53,727 shares of its Class A Stock at an average price of $13.13 per share during the six-month period ended June 30, 2004.

(2) The Company does not have any stock repurchase plans or programs. Shares were purchased in the open market and privately negotiated transactions and as a result disclosure requirements in columns (c) and (d) are not applicable (N/A).

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

a. The Annual Meeting of Stockholders of ACMAT Corporation was held on Thursday, June 24, 2004.

b. Directors elected at the meeting:

	Votes For	Votes Against	Brokers Non-Votes
Henry Nozko III	686,761	11,509	--
Henry Nozko, Jr	686,781	11,489	--
Victoria Nozko	686,541	11,729	--
John Creasy	686,581	11,689	--
Arthur Moore	697,450	810	--
Andrew Sullivan, Jr	697,463	807	--

c. Other matters voted upon:

	For	Against	Abstain	Brokers Non-Votes
1. Appointment of Independent Auditors	697,561	610	316	--
2. Approval of stock options	579,363	82,604	316	--

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Item 5 - Controls and Procedures

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

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

Item 6 - Exhibits and Reports on Form 8-K

a. Exhibits:

31.1 Certification of Chief Executive Officer as required by Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Chief Financial Officer as required by Section 302 of the Sarbanes-Oxley Act of 2002

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

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

b. Report on Form 8-K - None

SIGNATURES

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

ACMAT CORPORATION

Date: August 13, 2004

/S/ Henry W. Nozko, Jr.

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

Date: August 13, 2004

/S/ Michael P. Cifone

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