ACMAT CORP
Form 10-K
March 30, 2001

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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, 2000

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<br>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 [XX] No [_]

The aggregate market value as of March 15, 2001 of the Common Stock and Class A Stock held by non-affiliates of the registrant was $15,980,458.

As of March 15, 2001 there were 557,589 shares of the registrant's Common Stock and 1,952,254 shares of registrant's Class A Stock, each without par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: None

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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 and remediation operations. Through United Coastal Insurance Company ("United Coastal Insurance"), the Company provides a broad line of general, professional, environmental and other liability insurance primarily to environmental contractors and specialty trade contractors and architects, engineers and other 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 The A.M. Best Co., Inc. ("A.M. Best").

The Company is also engaged in construction contracting which consists of interior contracting services involving the design and furnishing of building interiors and asbestos abatement services for commercial, industrial and institutional buildings.

Financial Information about Operating Segments

Financial information relating to the three business segments is set forth in Note 15 to the consolidated financial statements on page 39 of 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-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.

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, which consist primarily of contractor policies and professional liability policies, 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 on either a claims-made or occurrence 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. Combined policies insuring multiple exposures under one policy form and one combined policy limit are available.

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. Many 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 Thomson BankWatch, Inc. 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.

Insurance and Bonding Performance Ratios

The following table sets forth the combined ratios of the Company, prepared in accordance with generally accepted accounting principles and statutory accounting principles prescribed or permitted by state insurance authorities. 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.

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2000 | 1999 | 1998 |
| GAAP Ratios: | | | |
| Loss ratio | 16.4% | 17.6% | 19.6% |
| Expense ratio | 58.9 | 56.6 | 51.8 |
| GAAP combined ratio | 75.3 | 74.2 | 71.4 |
| Statutory Ratios: | | | |
| Loss ratio | 16.4 | 17.6 | 19.9 |
| Expense ratio | 63.6 | 63.3 | 59.2 |
| Statutory combined ratio | 80.0% | 80.9% | 79.1% |

The increase in the combined GAAP ratio over the past three years results primarily from the decline in written premiums partially offset by the release of reserves on older underwriting years. 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 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. Historically, the Company has issued policies and bonds to fewer than twenty-five percent of its applicants.

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 well below 100%. The Company has a conservative underwriting philosophy which, in the opinion of management, is one of the primary reasons for the favorable loss ratios relative to the property and casualty insurance industry over the last three years.

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

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. The Company participates in assumed quota share reinsurance arrangements covering marine and property catastrophe risks with one of its excess of loss reinsurers.

Effective May 1, 2000, the Company cedes significantly more of its bond exposure than under its previous reinsurance treaties. Such reinsurance is applicable on a per principal basis for losses in excess of $1,000,000 up to $13,000,000. Prior to May 1, 2000, reinsurance was applicable to losses in excess of $2,000,000 on a per bond basis with the Company retaining approximately $5,000,000 of losses up to $13,000,000.

The availability and price of reinsurance fluctuates according to market conditions. 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.

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, 2000 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.

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. Reserves are monitored and recomputed periodically using new information on reported claims.

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.

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| Balance at January 1 | $ 38,544,491 | $ 43,115,062 | $ 48,900,713 |
| Less reinsurance recoverable | 3,924,064 | 2,224,116 | 3,478,121 |
| Net balance at January 1 | 34,620,427 | 40,890,946 | 45,422,592 |
| Incurred related to: | | | |
| Current year | 2,441,000 | 3,091,120 | 4,508,667 |
| Prior years | (934,092) | (1,418,233) | (2,321,939) |
| Total incurred | 1,506,908 | 1,672,887 | 2,186,728 |
| Payments related to: | | | |
| Current year | 791,546 | 81,569 | 18,260 |
| Prior years | 8,605,571 | 7,861,837 | 6,700,114 |
| Total Payments | 9,397,117 | 7,943,406 | 6,718,374 |
| Net balance at December 31 | 26,730,218 | 34,620,427 | 40,890,946 |
| Plus reinsurance recoverable | 2,580,388 | 3,924,064 | 2,224,116 |
| Balance at December 31 | $ 29,310,606 | $ 38,544,491 | $ 43,115,062 |

The decrease of incurred losses and loss adjustment expenses of prior years represents a release of surety loss reserves on older years that are no longer needed and a reallocation of reserves among accident years. 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.

As of December 31, 2000, 1999 and 1998 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 $29,375,218, $40,715,475 and $49,758,263, respectively. As of December 31, 2000, 1999 and 1998 reserves determined in accordance with generally accepted accounting principles ("GAAP basis reserves") were $29,310,606, $38,544,491 and $43,115,062, respectively. The difference between the Statutory basis reserves and the GAAP basis reserves result from the minimum statutory, or "Schedule P", loss reserves required to be maintained by the Company's insurance subsidiaries, partially offset by 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. The data for 1992 and prior periods are presented on a net basis in the reserve run-off table. Restatement of prior periods is not practicable.





Each column shows the reserve held at the indicated calendar year-end and cumulative data on payments and reestimated 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.

(thousands)

| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 199 |
|---|---|---|---|---|---|---|---|---|
| Liability for unpaid losses and loss adjustment expenses | 21,378 | 26,234 | 29,240 | 30,437 | 36,726 | 41,363 | 44,119 | 45,4 |
| Liability reestimated as of: | | | | | | | | |
| One year later | 21,378 | 26,234 | 29,240 | 30,437 | 35,825 | 40,193 | 43,282 | 43,1 |
| Two years later | 21,378 | 26,234 | 29,240 | 28,337 | 34,659 | 37,872 | 40,865 | 35,6 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Three years later | 21,378 | 26,234 | 26,000 | 27,170 | 29,913 | 35,354 | 33,359 | 33,7 |
| Four years later | 21,378 | 22,094 | 24,833 | 23,550 | 27,193 | 28,149 | 30,999 | |
| Five years later | 16,642 | 20,927 | 22,284 | 20,880 | 19,486 | 25,057 | | |
| Six years later | 15,475 | 18,841 | 19,914 | 13,673 | 16,254 | | | |
| Seven years later | 13,394 | 16,932 | 13,148 | 11,915 | | | | |
| Eight years later | 12,845 | 11,761 | 11,163 | | | | | |
| Nine years later | 10,138 | 10,412 | | | | | | |
| Ten years later | 9,588 | | | | | | | |
| Cumulative Redundancy (deficiency): | 11,790 | 15,822 | 18,077 | 18,522 | 20,472 | 16,306 | 13,122 | 11,6 |
| Paid (cumulative) as of: | | | | | | | | |
| One year later | 1,357 | 3,216 | 6,142 | 1,560 | 2,361 | 3,067 | 2,942 | 6,7 |
| Two years later | 4,067 | 8,699 | 7,574 | 3,655 | 4,582 | 5,256 | 8,951 | 13,9 |
| Three years later | 8,954 | 9,576 | 8,603 | 5,022 | 6,412 | 8,922 | 16,047 | 16,6 |
| Four years later | 10,233 | 10,488 | 9,554 | 6,189 | 7,969 | 15,601 | 18,597 | |
| Five years later | 10,554 | 10,816 | 9,818 | 6,869 | 12,425 | 17,564 | | |
| Six years later | 10,858 | 10,856 | 10,034 | 9,723 | 13,094 | | | |
| Seven years later | 10,874 | 10,949 | 10,761 | 10,296 | | | | |
| Eight years later | 10,874 | 11,445 | 10,787 | | | | | |
| Nine years later | 10,884 | 11,449 | | | | | | |
| Ten years later | 10,888 | | | | | | | |
| Gross liability - end of year | | | | 34,730 | 40,955 | 45,235 | 47,960 | 48,9 |
| Reinsurance recoverable | | | | 4,293 | 4,229 | 3,872 | 3,841 | 3,4 |
| Net liability - end of year | | | | 30,437 | 36,726 | 41,363 | 44,119 | 45,4 |

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 reestimated 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 eleven 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, 2000, none of the Company's insurance subsidiaries' IRIS ratios were designated an "unusual value".

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 2000 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).

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, 2000 was above the level which might require regulatory action.

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.

Backlog

The following table sets forth the Company's backlog of unbilled contract amounts, the total number of contracts and the number of contracts with unbilled amounts in excess of $400,000 as of December 31, 2000 and 1999:

| | December 31, 2000 | December 31, 1999 |
|---|---|---|
| Total Number of Contracts. | 20 | 13 |
| Total unbilled contract amounts. | $16,800,000 | $10,100,000 |

| | | |
|---|---|---|
| Number of contracts with unbilled amounts in excess of $400,000. | 3 | 4 |
| Aggregate unbilled amount of contracts in excess of $400,000. | $15,900,000 | $ 9,800,000 |

The Company estimates that all of the December 31, 2000 backlog will be completed prior to December 31, 2001.





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 never 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 both a claims-made and occurrence 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 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 is thought by some to 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 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 claims will not be made in the future.

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, although no assurances can be given, that workers' compensation insurance sufficient to cover all future claims will remain available in accordance with applicable state laws.

## 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 a non-admitted insurer in forty-six states, the District of Columbia, Puerto Rico and the Virgin Islands.

ACSTAR Insurance offers payment and performance bonds through carefully selected 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 products are marketed in all 50 states.

### 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 which is intended to emphasize ACMAT's packaged interior renovation capability. 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"), Reliance Insurance Group, Zurich Insurance Group, Design Professionals Insurance Company, CNA Insurance Companies 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., Reliance Insurance Group, AIG, CNA and Frontier Insurance Company. 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. Historically, a majority of the Company's construction business was performed on projects on which the Company had been in competition with other contractors. The Company focuses its 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.

## 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 a nonadmitted 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, 2000, the Company's insurance subsidiaries had securities with an aggregate book value of approximately $10 million on deposit with various state regulatory authorities.

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The insurance subsidiaries of ACMAT are restricted as to the amount of cash dividends they may pay. United Coastal Insurance is restricted by the Arizona Insurance Holding Company Systems Act as to the amount of dividends it may pay without the prior approval of the Arizona Department. During 2000, United Coastal Insurance paid $8,000,000 in dividends. At January 1, 2001, approximately $2,350,000 is available for the payment of dividends by United Coastal Insurance in 2001 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 2000, ACSTAR paid $2,500,000 in dividends to ACSTAR Holdings. At January 1, 2001, approximately $4,550,000 is available for the payment of dividends by ACSTAR Insurance in 2001 without the prior approval of the Illinois Insurance Department.

New regulations and legislation are being proposed to limit damage awards, to control plaintiffs' counsel fees, to bring the industry under regulation by the federal government and to control premiums, policy terminations and other policy terms. It is not possible to predict whether these proposals will be adopted or their likely effect, if any, on the Company.

## INVESTMENTS

The Company's investment strategy is to maintain a conservative investment policy by generally acquiring high quality securities, primarily bonds, with fixed effective maturities of approximately three years or less. The investment portfolio is well 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. Management has also decided to avoid long-term investing at what management believes to be low long-term interest rates.

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 invests in tax-exempt securities as part of its strategy to maximize after-tax income. Such strategy considers, among other factors, the impact of the alternative minimum tax. The following table summarizes the fair value fixed maturity investments portfolio at December 31, 2000 and 1999 (dollars in thousands):

| | December 31, 2000 Amount | 2000 Percent Of Total | Amount |
|---|---|---|---|
| Fixed maturities available for sale (1): | | | |
| U.S. government and government agencies and authorities | $17,271 | 22.7% | $18,569 |
| State and political subdivisions | 28,341 | 37.2 | 36,608 |
| Industrial and Miscellaneous | 19,825 | 26.0 | 27,007 |
| Mortgage-backed securities | 4,934 | 6.5 | 5,643 |
| Total fixed maturities available for sale | 70,371 | 92.4 | 87,827 |
| Equity securities(2) | 2,221 | 2.9 | 1,615 |
| Mortgages (3) | 290 | .4 | -- |
| Short-term investments (4) | 3,249 | 4.3 | 518 |
| Total investments | $76,131 | 100.0% | $89,960 |

(1) Fixed maturities available for sale are carried at fair value. Total cost of fixed maturities was approximately $70,488,000 at December 31, 2000 and $89,291,000 at December 31, 1999.

(2) Equity securities are carried at fair value. Total cost of equity securities was approximately $2,560,000 at December 31, 2000 and $2,065,000 at December 31, 1999.

(3) Mortgage loans are carried at amortized cost which approximate fair value at December 31, 2000.

(4) 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 the fair value of fixed maturities in the fixed maturity investment portfolio at December 31, 2000 and 1999 (dollars in thousands):

| | December 31, 2000 Amount | 2000 Percent Of Total | Amount |
|---|---|---|---|
| Due in (1): | | | |
| One year or less | $23,926 | 34.0% | 16,90 |
| After one year through five years | 39,014 | 55.4 | 64,13 |
| After five years through ten years | 3,132 | 4.5 | 3,71 |
| After ten years | 4,299 | 6.1 | 3,06 |

| | | |
|---|---|---|
| ------- | ----- | ------ |
| $70,371 | 100.0% | $87,82 |
| ======= | ===== | ====== |

(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, 2000, the Company's investments complied with such laws and regulations.





Investment results for the years ended December 31, 2000, 1999 and 1998 are shown in the following table (dollars in thousands):

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| Invested assets (1) | $90,619 | $111,559 | $126,371 |
| Investment income (2) | $ 4,571 | $ 5,390 | $ 6,138 |
| Average yield | 5.04% | 4.83% | 4.86% |

(1) Average of the aggregate invested amounts at the beginning and end of the period 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.

The yields reflect the Company's investment strategy of acquiring high quality tax-exempt securities with fixed effective maturities of approximately three years or less. 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 and repurchase stock.

## 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, 2000, the Company employed approximately 30 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 67% 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 2000.





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. 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.

| | 2000 | | 1999 | |
|---|---|---|---|---|
| | HIGH | LOW | HIGH | LOW |
| COMMON STOCK | | | | |
| 1st Quarter | 19 | 19 | 20-5/8 | 20-1/2 |
| 2nd Quarter | 19 | 19 | 20-1/2 | 19 |
| 3rd Quarter | 19 | 17 | 20-7/16 | 20 |
| 4th Quarter | 26 | 19 | 19 | 19 |
| CLASS A STOCK | | | | |
| 1st Quarter | 13-1/16 | 6-1/8 | 16-1/4 | 15 |
| 2nd Quarter | 8-3/4 | 7-1/8 | 15-1/4 | 14-3/4 |
| 3rd Quarter | 8-3/8 | 6-1/2 | 14-7/8 | 7-1/2 |
| 4th Quarter | 10 | 6-13/16 | 9 | 6-3/4 |

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 15, 2001, there were 285 Common Stock shareholders of record and 639 Class A Stock shareholders of record.

ITEM 6. SELECTED FINANCIAL DATA

| | 2000 | 1999 | 1998 | --- |
|---|---|---|---|---|
| Revenues | $ 26,341,755 | $ 25,500,249 | $ 28,752,273 | $ 3 |
| Total Assets | 112,216,369 | 125,855,611 | 146,126,465 | 17 |
| Long-Term Debt | 27,696,587 | 30,792,720 | 37,200,000 | 4 |
| Stockholders' Equity | 37,483,665 | 36,126,992 | 37,622,926 | 3 |
| Net Earnings | 2,224,317 | 3,013,723 | 2,120,529 | |
| Basic Earnings Per Share | .80 | 1.02 | .66 | |
| Diluted Earnings Per Share | .78 | .99 | .65 | |

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

CONSOLIDATED RESULTS OF OPERATIONS:

Net earnings were $2,224,317 in 2000, $3,013,723 in 1999 and $2,120,529 in 1998. The decrease in 2000 net earnings compared to the 1999 net earnings was due in part to realized capital losses in 2000 compared with capital gains in 1999. The increase in 1999 net earnings compared to the 1998 net earnings was due to the improved gross margins in the contracting business, the elimination of the limited partnership in 1998 and the reduction in interest expense related to the reduction of long-term debt partially offset by the decrease in investment income. Net earnings included approximately $1,000,000 of loss in 1998 related to the Company's share of a limited partnership. The limited partnership invested in small cap equities and incurred the loss in 1998 due to volatility in the small cap market. The Company sold its investment in the limited partnership on December 31, 1998.

Revenues were $26,341,755 in 2000, $25,500,249 in 1999 and $28,752,273 in 1998. The increase in 2000 revenues compared to the 1999 revenues is due primarily to an increase in contract revenues. Earned premiums were $9,215,904 in 2000, $9,414,192 in 1999 and $10,962,663 in 1998. The decrease in earned premiums over the past two years reflects the Company's strategy to avoid the unfavorable pricing in the Company's casualty insurance operations. Contract revenues were $11,790,207 in 2000, $9,223,457 in 1999 and $12,139,924 in 1998. Contract revenue depends greatly on the successful securement of contracts bid.

Investment income was $4,570,927 in 2000, $5,389,732 in 1999 and $6,138,105 in 1998. The decrease in investment income was primarily related to a continued decrease in invested assets as the Company continues to reduce long-term debt. Net realized capital gains (losses) were ($123,125) in 2000, $252,190 in 1999 and $266,169 in 1998.

Other income (expense) was $887,842 in 2000, $1,220,678 in 1999 and ($754,588) in 1998. Other income consists primarily of rental income. Other income in 1999 also included a one-time benefit of approximately $330,000. The fluctuations in other income (expense) are attributable to a pre-tax loss of approximately $1,400,000 in 1998 related to the Company's share of a limited partnership. The Company sold its investment in the limited partnership on December 31, 1998.

Losses and loss adjustment expenses were $1,506,908 in 2000, $1,672,887 in 1999 and $2,186,728 in 1998. The decreases in losses and loss adjustment expenses are attributable to the decline in earned premiums and the release of surety loss reserves on older years that are no longer needed. Amortization of policy acquisition costs were $2,375,038 in 2000, $2,223,918 in 1999 and $2,112,857 in 1998. The increase in amortization of policy acquisition costs is primarily attributable to the increase in commissions paid to agents.

Costs of contract revenues were $11,006,382 in 2000, $8,261,408 in 1999 and $11,635,879 in 1998. The gross profit margins on construction projects were 6.6% in 2000, 10.4% in 1999 and 4.2% in 1998. Gross margins fluctuate each year based upon the profitability of specific projects.

General and administrative expenses were $4,997,849 in 2000, $5,385,409 in 1999 and $5,355,183 in 1998. The decrease in general and administrative expenses in 2000 compared to 1999 is due primarily to the decrease in amortization expense. The increase in general and administrative expenses in 1999 compared to 1998 is due primarily to the increase in salary expense.

Interest expense was $2,982,824 in 2000, $3,738,740 in 1999 and $4,621,401 in 1998. The decrease in interest expense is due to the decrease in long-term debt.

Income tax expense was $1,248,437 in 2000, $1,204,164 in 1999 and $719,696 in 1998, representing effective tax rates of 35.9% 28.6% and 25.3%, respectively. The fluctuation in the effective tax rate reflects a one-time charge related to an IRS examination completed in 2000.

Results of Operations by Segment:

| ACSTAR BONDING: | 2000 | 1999 | 1998 |
|---|---|---|---|
| Revenue | $6,284,212 | $6,227,462 | $5,286,955 |
| Operating Earnings | $2,436,708 | $2,968,882 | $2,314,485 |





Revenues for the ACSTAR Bonding segment were $6,284,212 in 2000, $6,227,462 in 1999 and $5,286,955 in 1998. The 2000 increase in revenue reflects a slight increase in earned premium. The 1999 increase in revenue reflects a slight increase in earned premiums and investment income compared to 1998. Included in 1998 revenues is a pre-tax loss of approximately $570,000 for net loss of the limited partnership investment.

Investment income was $1,253,329 in 2000, $1,268,175 in 1999 and $1,169,977 in 1998. The slight decrease in 2000 investment income was primarily related to a continued decrease in invested assets offset in part by an increase in the effective yield on those invested assets. Net realized capital gains (losses) were $5,622 in 2000, $51,616 in 1999 and $68,040 in 1998.

Operating earnings for the ACSTAR Bonding segment were $2,436,708 in 2000, $2,968,882 in 1999 and $2,314,485 in 1998. The decrease in 2000 operating earnings compared to 1999 operating earnings reflects the Company's new reinsurance program and an increase in the amortization of policy acquisition costs. The increase in 1999 operating earnings compared to 1998 operating earnings is due primarily to an increase in earned premiums and investment income offset in part by an increase in the amortization of policy acquisition costs.

Losses and loss adjustment expenses were $251,876 in 2000, $238,520 in 1999 and $230,912 in 1998. Amortization of policy acquisition costs were $2,001,561 in 2000, $1,543,783 in 1999 and $1,225,718 in 1998. The increase in amortization of policy acquisition costs in 2000 compared to 1999 is primarily attributable to the increase in direct written premiums and commissions paid to agents.

General and administrative expenses were $1,594,067 in 2000, $1,476,277 in 1999 and $1,515,840 in 1998. The increase in general and administrative expenses in 2000 compared to 1999 is due primarily to the implementation of a Funds Control Agreement with ACMAT. Under this agreement, ACMAT collects funds from certain obligees of ACSTAR and makes payments directly to the vendors and subcontractors of selected principals for certain bond obligations. The decrease in general and administrative expenses in 1999 compared to 1998 is due primarily to the decrease in bad debt expense.

United Coastal

| LIABILITY INSURANCE: | 2000 | 1999 | 1998 |
|---|---|---|---|
| Revenue | $7,080,714 | $8,529,279 | $10,315,294 |
| Operating Earnings | $3,549,472 | $4,578,802 | $ 5,176,870 |

Revenues for the United Coastal Liability Insurance segment were $7,080,714 in 2000, $8,529,279 in 1999 and $10,315,294 in 1998. The 2000 decrease in revenue reflects a 12% decrease in earned premiums and a 16% decrease in investment income compared to 1999. The 1999 decrease in revenue reflects a 27% decrease in earned premiums and a 20% decrease in investment income compared to 1998. Included in 1998 revenues is a pre-tax loss of approximately $830,000 for net loss of the limited partnership investment. The decrease in revenues over the past two years reflects the Company's strategy to avoid the unfavorable pricing in the Company's casualty insurance market.

Investment income was $3,001,161 in 2000, $3,557,332 in 1999 and $4,430,026 in 1998. The decrease in investment income was primarily related to a decrease in invested assets as a result of dividends distributed to the parent company to reduce corporate debt. Net realized capital gains (losses) were ($117,503) in 2000, $200,574 in 1999 and $198,129 in 1998.

Operating earnings for the United Coastal Liability Insurance segment were $3,549,472 in 2000, $4,578,802 in 1999 and $5,176,870 in 1998. The decrease in 2000 operating earnings compared to 1999 operating earnings is due primarily to a decrease in earned premiums and investment income. The decrease in 1999 operating earnings compared to 1998 is due to a decrease in earned premiums.

Losses and loss adjustment expenses were $1,255,032 in 2000, $1,434,367 in 1999 and $1,955,816 in 1998. The decrease in losses and loss adjustment expenses is attributable to the decrease in earned premiums. Amortization of policy acquisition costs were $1,303,916 in 2000, $1,528,179 in 1999 and $1,852,218 in 1998. The decrease in amortization of policy acquisition costs is primarily attributable to the decrease in earned premiums.

General and administrative expenses were $972,294 in 2000, $987,931 in 1999 and

$1,330,390 in 1998. The decrease in general and administrative expenses is due primarily to the overall decrease in business activities.





| ACMAT CONTRACTING: | 2000 | 1999 | 1998 |
|---|---|---|---|
| Revenue | $15,898,910 | $13,154,753 | $15,801,541 |
| Operating Earnings | $ 1,111,731 | $ 907,228 | $ 501,712 |

Revenues for the ACMAT Contracting segment were $15,898,910 in 2000, $13,154,753 in 1999 and $15,801,541 in 1998. The 2000 increase in revenue reflects a 28% increase in contract revenues compared to 1999. The decrease in 1999 revenue compared to the 1998 revenue is due primarily to a 24% decrease in contract revenues in 1999. Contract revenue depends greatly on the successful securement of contracts bid.

Operating earnings for the ACMAT Contracting segment were $1,111,731 in 2000, $907,228 in 1999 and $501,712 in 1998. The increase in 2000 operating earnings compared to 1999 operating earnings is due to implementation of the Funds Administration Agreement with ACSTAR offset in part by lower gross margins on 2000 projects. The increase in 1999 operating earnings compared to 1998 operating earnings is due primarily to improved gross margins on the 1999 projects.

Cost of contract revenues were $11,006,382 in 2000, $8,261,408 in 1999 and $11,635,879 in 1998. The gross profit margin on construction projects was 6.6% in 2000, 10.4% in 1999 and 4.2% in 1998. Gross margin fluctuations each year based upon the profitability of specific projects.

General and administrative expenses were $3,780,797 in 2000, $3,886,117 in 1999 and $3,488,950 in 1998. The decrease in general and administrative expenses in 2000 compared to 1999 is due primarily to the decrease in amortization of intangibles. The increase in general and administrative expenses in 1999 compared to 1998 is due primarily to the increase in salary expense and the amortization of intangibles.

RESERVES FOR LOSSES AND LOSS ADJUSTMENT EXPENSES:

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

Management believes that the reserves for losses and loss adjustment expenses at December 31, 2000 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.

The combined ratio is one means of measuring the underwriting experience of a property and casualty insurer. The combined ratio, consisting of the ratio of losses and loss adjustment expenses to premiums earned (the "loss ratio") plus the ratio of underwriting expenses to premiums written (the "expense ratio") reflects relative underwriting profit or loss. The Company's insurance subsidiaries' loss ratios under generally accepted accounting principles ("GAAP") were 16.4%, 17.6% and 19.6% for the years ended December 31, 2000, 1999 and 1998, respectively. These loss ratios are below industry averages and are believed to be the result of conservative underwriting. The decrease in the loss ratios is due to the release of surety reserves. There can be no assurance that such loss ratios can continue. The Company's insurance subsidiaries' expense ratios under GAAP were 58.9%, 56.6% and 51.8% for the years ended December 31, 2000, 1999 and 1998, respectively. The increase in the expense ratios is due to the decline in premiums. The Company's insurance subsidiaries' combined ratios under GAAP were 75.3%, 74.2% and 71.4% for the years ended December 31, 2000, 1999 and 1998, respectively. The increase in the 2000 combined ratio results primarily from the decline in premiums and an increase in commissions paid to agents and brokers.





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 has also incurred negative working capital as a result of holding short-term debt related to its operations.

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 recently utilized short-term borrowings to repurchase its stock. ACMAT has also relied on dividends from its insurance subsidiaries to repay debt.

The Company used cash flow from other sources to support operations in the amount of $8,190,436 in 2000, compared to cash flow realized from operations of $7,065,427 in 1999 and $530,977 in 1998. The cash flow from operations is due primarily to the return of cash collateral and the payment of claims. Substantially all of the Company's cash flow is used to repay short-term and 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 $14,008,674 in 2000, $20,580,662 in 1999 and $21,326,746 in 1998.

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 the re-acquisition of shares are restricted each to amounts of an available fund ("Available Fund"). The Available Fund is a cumulative fund which is increased each year by 20% of the Consolidated Net Earnings (as defined). The Company is in compliance with all of these covenants at December 31, 2000, except for the ratio of Earnings Before Interest Expense, Taxes, Depreciation and Amortization to Fixed Charges. The Company has received a waiver for this covenant.

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, 2000.

During 2000, the Company purchased, in the open market and privately negotiated transactions, 27,239 shares of its Common Stock at an average price of $19.08. The Company also purchased, in open market and privately negotiated transactions, 253,833 shares of its Class A Stock at an average price of $7.29 per share.

The Company's principal source of cash for repayment of long-term debt is dividends from its two insurance companies. During 2000, ACMAT received $7,780,000 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 2001, the amount of dividends ACMAT's insurance subsidiaries may pay, without prior approval of their domestic state insurance departments, is limited to approximately $6,900,000.

In 2001, the Company anticipates that internally generated funds and short-term borrowings will be utilized for repayment of long-term debt. Principal repayments on long-term debt is scheduled to be $3,143,108 in 2001.

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, 2000 was above the level which might require regulatory action.





Item 7a. Quantatative and Qualitative Discussion 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, 2000. 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, 2000 was $76,130,538, 92% 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, 1999. 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.

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.

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, 2000.

The sensitivity analysis model used by the Company produces a loss in fair value of market sensitive instruments of $ .5 million based on a 100 basis point increase in interest rates as of December 31, 2000, 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 68% 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.





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:

Independent Auditors' Report

Consolidated Statements of Earnings for the years ended December 31, 2000, 1999 and 1998

Consolidated Balance Sheets as of December 31, 2000 and 1999

Consolidated Statements of Stockholders' Equity for the years ended December 31, 2000, 1999 and 1998

Consolidated Statements of Cash Flows for the years ended December 31, 2000, 1999 and 1998

Notes to Consolidated Financial Statements - December 31, 2000, 1999 and 1998

Consolidated Schedules included in Part II of this Report - Years ended December 31, 2000, 1999 and 1998:

I - Condensed Financial Information of Registrant

II - Valuation and Qualifying Accounts and Reserves

V - Supplemental Information Concerning Property-Casualty Insurance Operations





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, 2000 and 1999, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2000 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.

KPMG LLP

Hartford, Connecticut
February 23, 2001

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ACMAT CORPORATION AND SUBSIDIARIES

Consolidated Statements of Earnings
Years Ended December 31, 2000, 1999 and 1998

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| Earned premiums | $ 9,215,904 | 9,414,192 | 10,962,66 |
| Contract revenues | 11,790,207 | 9,223,457 | 12,139,92 |
| Investment income, net | 4,570,927 | 5,389,732 | 6,138,10 |
| Net realized capital gains (losses) | (123,125) | 252,190 | 266,16 |
| Other income (expense) | 887,842 | 1,220,678 | (754,58 |
| | 26,341,755 | 25,500,249 | 28,752,27 |
| Losses and loss adjustment expenses | 1,506,908 | 1,672,887 | 2,186,72 |
| Cost of contract revenues | 11,006,382 | 8,261,408 | 11,635,87 |
| Amortization of policy acquisition costs | 2,375,038 | 2,223,918 | 2,112,85 |
| General and administrative expenses | 4,997,849 | 5,385,409 | 5,355,18 |
| Interest expense | 2,982,824 | 3,738,740 | 4,621,40 |

| | | | |
|---|---|---|---|
| | 22,869,001 | 21,282,362 | 25,912,04 |
| Earnings before income taxes | 3,472,754 | 4,217,887 | 2,840,22 |
| Income taxes | 1,248,437 | 1,204,164 | 719,69 |
| Net earnings | $ 2,224,317 | 3,013,723 | 2,120,52 |
| Basic earnings per share | $ .80 | 1.02 | .6 |
| Diluted earnings per share | $ .78 | .99 | .6 |

See Notes to Consolidated Financial Statements.

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ACMAT CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets
December 31, 2000 and 1999

| | 2000 |
|---|---|
| ASSETS | |
| Investments: | |
| Fixed maturities - available for sale at fair value (Cost of $70,487,764 in 2000 and $89,290,810 in 1999) | $ 70,370,912 |
| Equity securities - available for sale at fair value (Cost of $2,561,512 in 2000 and $2,065,262 in 1999 ) | 2,220,936 |
| Mortgages | 289,625 |
| Short-term investments, at cost which approximates fair value | 3,249,065 |
| Total Investments | 76,130,538 |
| Cash and cash equivalents | 7,446,941 |
| Accrued interest receivable | 1,033,411 |
| Receivables, net of allowance for doubtful accounts of $147,346 in 2000 and $195,118 in 1999 | 4,140,363 |
| Reinsurance recoverable | 2,580,388 |
| Income tax refund receivable | -- |
| Prepaid expenses | 133,018 |
| Deferred income taxes | 833,865 |
| Property and equipment, net | 12,624,792 |
| Deferred policy acquisition costs | 1,438,747 |
| Other assets | 3,612,239 |
| Intangibles, net | 2,242,067 |

| | |
|---|---|
| | $ 112,216,369 |
| Liabilities & Stockholders' Equity | |
| Accounts payable | $ 2,407,958 |
| Reserves for losses and loss adjustment expenses | 29,310,606 |
| Unearned premiums | 5,442,777 |
| Collateral held | 8,673,378 |
| Income taxes | 22,582 |
| Other accrued liabilities | 1,178,816 |
| Long-term debt | 27,696,587 |
| Total Liabilities | 74,732,704 |
| Commitments and contingencies | |
| Stockholders' Equity: | |
| Common Stock (No par value; 3,500,000 shares authorized; 557,589 and 584,828 shares issued and outstanding) | 557,589 |
| Class A Stock (No par value; 10,000,000 shares authorized; 2,057,254 and 2,304,587 shares issued and outstanding) | 2,057,254 |
| Retained earnings | 35,326,305 |
| Accumulated other comprehensive income (loss) | (457,483) |
| Total Stockholders' Equity | 37,483,665 |
| | $ 112,216,369 |

See Notes to Consolidated Financial Statements.





ACMAT CORPORATION AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity
December 31, 2000, 1999 and 1998

| | Common Stock par value | Class A Stock par value | Additional paid-in capital | Retai earni |
|---|---|---|---|---|
| Balance as of December 31, 1997 | $ 596,857 | 2,712,174 | -- | 36,033 |
| Comprehensive income: | | | | |
| Net unrealized appreciation of debt and equity securities, net of reclassification adjustment | -- | -- | -- | |
| Net earnings | -- | -- | -- | 2,120 |
| Total comprehensive income | -- | -- | -- | |
| Acquisition and retirement of | | | | |

| | | | | |
|---|---|---|---|---|
| 4,769 shares of Common Stock | $ (4,769) | -- | -- | (93 |
| Acquisition and retirement of 342,366 shares of Class A Stock | -- | (342,366) | (841,980) | (3,985 |
| Issuance of 91,000 shares of Class A Stock pursuant to stock options | -- | 91,000 | 841,980 | |
| Balance as of December 31, 1998 | $ 592,088 | 2,460,808 | -- | 34,074 |
| Comprehensive income: | | | | |
| Net unrealized losses on debt and equity securities, net of reclassification adjustment | -- | -- | -- | |
| Net earnings | -- | -- | -- | 3,013 |
| Total comprehensive income | -- | -- | -- | |
| Acquisition and retirement of 7,260 shares of Common Stock | $ (7,260) | -- | -- | (144 |
| Acquisition and retirement of 189,221 shares of Class A Stock | -- | (189,221) | (388,500) | (1,791 |
| Issuance of 15,000 shares of Class A Stock pursuant to investment agreement | -- | 15,000 | 206,250 | |
| Issuance of 18, 000 shares of Class A Stock pursuant to stock options | -- | 18,000 | 182,250 | |
| Balance as of December 31, 1999 | $ 584,828 | 2,304,587 | -- | 35,151 |
| Comprehensive income: | | | | |
| Net unrealized losses on debt and equity securities, net of reclassification adjustment | -- | -- | -- | |
| Net earnings | -- | -- | -- | 2,224 |
| Total comprehensive income | -- | -- | -- | |
| Acquisition and retirement of 27,239 shares of Common Stock | (27,239) | -- | (38,025) | (454 |
| Acquisition and retirement of 253,833 shares of Class A Stock | -- | (253,833) | -- | (1,595 |
| Issuance of 6,500 shares of Class A Stock pursuant to stock options | -- | 6,500 | 38,025 | |
| Balance as of December 31, 2000 | $ 557,589 | 2,057,254 | -- | 35,326 |

See Notes to Consolidated Financial Statements.





ACMAT CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows
Years ended December 31, 2000, 1999 and 1998

| | 2000 | 1999 |
|---|---|---|
| Cash Flows From Operating Activities: | | |
| Net earnings | $ 2,224,317 | 3,013,7 |
| Adjustments to reconcile net earnings to net | | |
| Cash provided by (used for) operating activities: | | |
| Depreciation and amortization | 1,547,144 | 1,829,6 |
| Net realized capital (gains) losses | 123,125 | (252,1 |
| Limited partnership investment | -- | |
| Deferred income taxes | 726,459 | 428,9 |
| Changes In: | | |
| Accrued interest receivable | 290,945 | 27,9 |
| Receivables, net | (1,316,982) | 914,2 |
| Reinsurance recoverable | 1,343,676 | (1,699,9 |
| Deferred policy acquisition costs | (114,967) | 226,3 |
| Prepaid expenses and other assets | (1,293,362) | 741,3 |
| Accounts payable and other liabilities | 412,388 | (874,2 |
| Collateral held | (3,281,176) | (5,389,8 |
| Reserves for losses and loss adjustment expenses | (9,233,885) | (4,570,5 |
| Income taxes | 201,573 | 72,1 |
| Unearned premiums | 180,309 | (1,532,9 |
| Net cash used for operating activities | (8,190,436) | (7,065,4 |
| Cash Flows From Investing Activities: | | |
| Proceeds from investments sold or matured: | | |
| Fixed maturities - sold | 16,465,522 | 63,593,7 |
| Fixed maturities - matured | 13,431,000 | 11,692,0 |
| Equity securities | 325,000 | 24,4 |
| Short-term investments | 21,932,313 | 143,866,5 |
| Purchases Of: | | |
| Fixed maturities | (11,821,523) | (66,790,0 |
| Equity securities | (821,250) | (24,4 |
| Mortgages | (289,625) | |
| Short-term investments | (24,662,821) | (131,437,1 |
| Capital expenditures | (549,942) | (344,3 |
| Net cash provided by investing activities | 14,008,674 | 20,580,6 |
| Cash Flows From Financing Activities: | | |
| Borrowings under line of credit | -- | 9,000,0 |
| Repayments under line of credit | -- | (9,000,0 |
| Repayments on long-term debt | (3,096,133) | (10,907,2 |
| Issuance of long-term debt | -- | 4,500,0 |
| Issuance of Class A Stock | 39,000 | 162,0 |
| Payments for acquisition and retirement of stock | (2,369,075) | (2,521,2 |
| Net cash used for financing activities | (5,426,208) | (8,766,5 |
| Net change in cash and cash equivalents | 392,030 | 4,748,6 |
| Cash and cash equivalents, beginning of year | 7,054,911 | 2,306,2 |
| Cash and cash equivalents, end of year | $ 7,446,941 | 7,054,9 |

See Notes to Consolidated Financial Statements.





ACMAT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2000, 1999 AND 1998

(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 generally accepted accounting principles ("GAAP"). All significant intercompany accounts and transactions have been eliminated in consolidation.

(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 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.

During 2000, 1999 and 1998, customers who individually accounted for more than 10% of consolidated construction contracting revenue are as follows; in 2000 - three customers provided 33%, 22% and 19%, respectively. In 1999 - two customers provided 51% and 24%, respectively. In 1998 - three customers provided 52%, 19% and 17%, respectively. No customers accounted for more than 10% of the consolidated insurance revenues in any year.

(c) Investments

Investments are classified as "available for sale" and are reported at fair value, with unrealized gains or losses 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 market value through a charge to income.

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) Policy Acquisition Costs

Policy acquisition costs, representing commissions and certain underwriting costs, are deferred and amortized on a straight-line basis over the policy term. During the years ended December 31, 2000, 1999 and 1998, deferrable costs capitalized were $2,490,005, $1,997,609, and $1,584,541, respectively. The amortization of deferred policy acquisition costs charged to operations for the years ended December 31, 2000, 1999 and 1998 was $2,375,038, $2,223,918 and $2,112,857, respectively.

(e) Property and Equipment

Property and equipment are reported at depreciated cost. 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

All intangibles are stated at amortized cost and are being 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 are amortized over periods ranging from 15 to 25 years. The carrying amounts of these intangibles are regularly reviewed for indicators of other-than-temporary impairments in value.

(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

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





(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. The Company participates in assumed quota share reinsurance arrangements covering marine and property catastrophe risks with one of its excess of loss reinsurers.

Effective May 1, 2000, the Company cedes significantly more of its bond exposure than under its previous reinsurance treaties. Such reinsurance is applicable on a per principal basis for losses in excess of $1,000,000 up to $13,000,000. Prior to May 1, 2000, reinsurance was applicable to losses in excess of $2,000,000 on a per bond basis with the Company retaining approximately $5,000,000 of losses up to $13,000,000.

Reinsurance recoverables include ceded reserves for losses and loss adjustment expenses. Ceded unearned premiums of $938,797 and $453,588 at December 31, 2000 and 1999, 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

| | 2000 | 1999 | 1998 | 2000 |
|---|---|---|---|---|
| Direct | $ 10,453,336 | 8,968,024 | 8,324,506 | $ 10,247,698 |
| Assumed | 12,743 | 124,763 | 528,220 | 40,897 |
| Ceded | (1,555,074) | (1,002,787) | (649,109) | (1,072,691) |
| Totals | $ 8,911,004 | 8,090,000 | 8,203,617 | $ 9,215,904 |

Ceded incurred losses and loss adjustment expenses totaled $175,397, $215,292 and $180,553 for the years ended December 31, 2000, 1999 and 1998, respectively.

(j) 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.

(k) Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. 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.

(l) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.





(m) Comprehensive Income (Loss)

The following table summarizes reclassification adjustments for other comprehensive income (loss) and the related tax effects for the years ended December 31, 2000, 1999 and 1998:

| | 2000 |
|---|---|
| Unrealized gains (losses) on investments: | |
| Unrealized holding gain (loss) arising during period net of income tax expense of $224,405 for 1998 | $ 1,538,1 |
| Less reclassification adjustment for gains included in net earnings, net of income tax expense (benefit) of ($41,863), $85,745 and $90,497 for 2000, 1999 and 1998, respectively | (81,2 |
| Other comprehensive income (loss) | $ 1,456,9 |

(n) Future Accounting Standard

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (FAS 133). In June 1999, the FASB issued Statement of Financial Accounting Standards No. 137, "Deferral of the Effective Date of FASB Statement No. 133", which allows entities which have not yet adopted FAS 133 to defer its effective date to all fiscal quarters of all fiscal years beginning after June 15, 2000. In June 2000, the FASB issued Statement of Financial Accounting Standards No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of FASB Statement No. 133", which amends the accounting and reporting standards of FAS 133. FAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the consolidated balance sheet and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized asset or liability or an unrecognized firm commitment, (b) a hedge of the exposure to variable cash flows of a recognized asset or liability or of a forecasted transaction, or (c) a hedge of the foreign currency exposure of a net investment in a foreign operation, an unrecognized firm commitment, an available-for-sale security, or a foreign-currency-denominated forecasted transaction. The accounting for changes in the fair value of a derivative (that is, gains and losses) depends on the intended use of the derivative and the resulting designation. Upon initial application of FAS 133, hedging relationships must be designated anew and documented pursuant to the provisions of this statement. The Company will adopt FAS 133, as amended, as of January 1, 2001. The Company has determined that the cumulative effect of FAS 133, as amended, will not be significant.





ACMAT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(2) INVESTMENTS

INVESTMENTS AT DECEMBER 31, 2000 AND 1999 FOLLOWS:

| | AMORTIZED COST | ESTIMATED FAIR VALUE |
|---|---|---|
| 2000 | | |
| Fixed maturities - available for sale: | | |
| Bonds: | | |
| States, municipalities and political subdivisions | $28,385,622 | $28,340,47 |
| United States government and government agencies | 17,215,078 | 17,270,78 |
| Mortgage-backed securities | 4,938,654 | 4.934,26 |
| Industrial and miscellaneous | 19,948,410 | 19,825,38 |
| Total fixed maturities | 70,487,764 | 70,370,91 |
| Equity securities - common stocks: | | |
| Banks, trusts and insurance | 5,262 | 15,92 |
| Equity securities - redeemable preferred stocks: | | |
| Banks, trusts and insurance | 1,060,000 | 908,76 |
| Industrial and miscellaneous | 1,496,250 | 1,296,25 |
| Total equity securities | 2,561,512 | 2,220,93 |
| Mortgage | 289,625 | 289,62 |
| Short-term investments | 3,249,065 | 3,249,06 |
| Total investments | $76,587,966 | 76,130,53 |
| 1999 | | |
| Fixed maturities - available for sale: | | |
| Bonds: | | |
| States, municipalities and political subdivisions | $37,020,634 | 36,607,99 |
| United States government and government agencies | 18,885,440 | 18,568,88 |
| Mortgage-backed securities | 5,816,255 | 5,642,88 |
| Industrial and miscellaneous | 27,568,481 | 27,007,14 |
| Total fixed maturities | 89,290,810 | 87,826,92 |
| Equity securities - common stocks: | | |
| Banks, trusts and insurance | 5,262 | 14,76 |
| Equity securities - redeemable preferred stocks: | | |
| Banks, trusts and insurance | 1,060,000 | 860,00 |
| Industrial and miscellaneous | 1,000,000 | 740,00 |
| Total equity securities | 2,065,262 | 1,614,76 |
| Short-term investments | 518,557 | 518,55 |
| Total investments | $91,874,629 | 89,960,24 |

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, 2000, the Company's insurance subsidiaries had securities with an aggregate book value of approximately $10 million on deposit with various state regulatory authorities.

ACMAT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The amortized cost and fair value of fixed maturities at December 31, 2000 and 1999, by effective maturity, follows:

| | 2000 | | |
|---|---|---|---|
| | Amortized Cost | Fair Value | Am |
| Due in one year or less | $24,468,676 | 23,925,468 | 16 |
| Due after one year through five years | 38,570,751 | 39,014,149 | 65 |
| Due after five years through ten years | 3,125,942 | 3,131,895 | 3 |
| Due after ten years | 4,322,395 | 4,299,400 | 3 |
| Total | $70,487,764 | 70,370,912 | 89 |

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

A summary of gross unrealized gains and losses at December 31, 2000 and 1999 follows:

| | 2000 | | 1999 |
|---|---|---|---|
| | Gains | Losses | Gains |
| States, municipalities and political subdivisions | $ 33,854 | (78,999) | 8,870 |
| United States government and government agencies | 77,320 | (21,609) | 103 |
| Industrial and miscellaneous | -- | (123,029) | -- |
| Mortgage-backed securities | 6,356 | (10,745) | -- |
| Total | 117,530 | (234,382) | 8,973 |
| Equity securities | 10,664 | (351,240) | 9,501 |
| Total | $128,194 | (585,622) | 18,474 |

(3) INVESTMENT INCOME AND REALIZED CAPITAL GAINS AND LOSSES

A summary of net investment income for the years ended December 31, 2000, 1999 and 1998 follows:

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| Tax-exempt interest | $ 1,268,898 | 1,680,051 | 2,045,7 |
| Taxable interest | 3,279,902 | 3,680,987 | 4,080,8 |
| Dividends on equity securities | 112,639 | 112,130 | 56,6 |
| Investment expenses | (90,512) | (83,436) | (45,0 |
| Net investment income | $ 4,570,927 | 5,389,732 | 6,138,1 |

Realized capital gains (losses) for the years ended December 31, 2000, 1999 and 1998 follows:

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| Fixed maturities | $(123,125) | 252,190 | 225,7 |
| Equity securities | -- | -- | 44,6 |
| Other | -- | -- | (4,1 |
| Net realized capital gains (losses) | $(123,125) | 252,190 | 266,1 |





Gross gains of $14,162, $349,413 and $229,063 and gross losses of $137,287, $97,223 and $3,362 were realized on fixed maturity sales for the years ended December 31, 2000, 1999 and 1998, respectively. There were no gross gains realized on the sale of equity securities for the years ended December 31, 2000 and 1999. Gross gains of $44,653 were realized on sale of equity securities for the year ended December 31, 1998. There were no losses realized on equity security sales for the years ended December 31, 2000, 1999 and 1998.

(4) RECEIVABLES

A summary of receivables at December 31, 2000 and 1999 follows:

| | 2000 |
|---|---|
| Insurance premiums due from agents | $ 1,531,017 |
| Receivables under construction contracts: | |
| Amounts billed | 2,162,875 |
| Recoverable costs in excess of billings on uncompleted contracts | 152,897 |
| Billings in excess of costs on uncompleted contracts | (294,055) |
| Retainage, due on completion of contracts | 552,624 |

| | |
|---|---|
| Total receivables under construction contracts | 2,574,341 |
| Other | 182,351 |
| Total receivables | 4,287,709 |
| Less allowances for doubtful accounts | (147,346) |
| Total receivables, net | $ 4,140,363 |

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 2001.

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, 2000 and 1999 follows:

| | 2000 | 1999 |
|---|---|---|
| Building | 15,039,038 | 14,912,042 |
| Land | 800,000 | 800,000 |
| Equipment and vehicles | 1,512,260 | 1,255,128 |
| Furniture and fixtures | 840,114 | 888,824 |
| | 18,191,412 | 17,855,994 |
| Less accumulated depreciation | 5,566,620 | 5,180,038 |
| | $12,624,792 | 12,675,956 |

Future minimum rental income to be generated by leasing a portion of the building under non-cancelable operating leases as of December 31, 2000 are estimated to be $545,090 for 2001, $549,890 for 2002, $428,690 for 2003 and $53,200 for 2004. Rental income earned in 2000, 1999 and 1998 was $768,496, $688,102 and $626,730, respectively.

(6) INTANGIBLES

A summary of intangibles, acquired primarily in connection with purchases of the Company's insurance subsidiaries, at December 31, 2000 and 1999 follows:

| | 2000 | 1999 |
|---|---|---|
| Insurance licenses | $4,188,926 | 4,188,926 |
| Goodwill | 2,441,310 | 2,524,872 |

| | | |
|---|---|---|
| | 6,630,236 | 6,713,798 |
| Less accumulated amortization | 4,388,169 | 4,145,079 |
| | $2,242,067 | 2,568,719 |

Intangible assets are written off when they become fully amortized.





(7) 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.

| | 2000 | 1999 | |
|---|---|---|---|
| Balance at January 1 | $ 38,544,491 | 43,115,062 | 48 |
| Less reinsurance recoverable | 3,924,064 | 2,224,116 | 3 |
| Net balance at January 1 | 34,620,427 | 40,890,946 | 45 |
| Incurred related to: | | | |
| Current year | 2,441,000 | 3,091,120 | 4 |
| Prior years | (934,092) | (1,418,233) | (2 |
| Total incurred | 1,506,908 | 1,672,887 | 2 |
| Payments related to: | | | |
| Current year | 791,546 | 81,569 | |
| Prior years | 8,605,571 | 7,861,837 | 6 |
| Total payments | 9,397,117 | 7,943,406 | 6 |
| Net balance at December 31 | 26,730,218 | 34,620,427 | 40 |
| Plus reinsurance recoverable | 2,580,388 | 3,924,064 | 2 |
| Balance at December 31 | $ 29,310,606 | 38,544,491 | 43 |

The decrease of incurred losses and loss adjustment expenses of prior years represents a release of surety loss reserves on older years that are no longer needed and a reallocation of reserves among accident years. 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, 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.

(8) NOTES PAYABLE TO BANKS

At December 31, 2000, the Company has a $10,000,000 bank line of credit with a financial institution. 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, 2000 and 1999. 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.

(9) LONG-TERM DEBT

A summary of long-term debt at December 31, 2000 and 1999 follows:

| | 2000 | 1999 |
|---|---|---|
| Term Loan due 2004 | $ 3,250,000 | 4,250,000 |
| Senior Notes due 2005 | 2,400,000 | 3,900,000 |
| Mortgage Note due 2009 | 6,646,587 | 7,242,720 |
| Convertible Note due 2022 | 15,400,000 | 15,400,000 |
| | $27,696,587 | 30,792,720 |





On September 1, 1999, the Company obtained a $4,500,000 term loan from a financial institution, which is currently payable in quarterly installments of $250,000 which commenced December 1, 1999. The term loan, due 2004 has a balance of $3,250,000 at December 31, 2000. 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 $6,646,587 at December 31, 2000. The loan agreements contain certain limitations on borrowings, minimum statutory capital levels and require maintenance of specified ratios. The proceeds were used to repay the existing mortgage note.

On February 5, 1997, ACMAT Corporation purchased 1,099,996 shares of Class A Stock which AIG Life Insurance Company (366,663 shares) and American International Life Assurance Company of New York, (733,333) had acquired over the last three years through conversion options (See Note 12). The shares were purchased at an average price of $14.70 per share, for a total purchase price of $16,174,942. The purchase price of $16,174,942 consisted of $4,174,942 in cash and promissory notes totaling $12,000,000. The promissory notes are with AIG Life Insurance Company and American International Life Assurance Company of New York and are payable over eight years with annual payments of $1,500,000 which commenced on January 31, 1998, with interest at prime rate (8-1/2%). The Company voluntarily prepaid the installments due January 31 on December 31 in 2000, 1999 and 1998. The Company also made a voluntary prepayment of $3,600,000 on December 31, 1999. The interest rate is equal to the prime rate, however, the interest rate shall not exceed 9-1/4% and it shall not be less than 7-1/4%. The senior notes have a balance of $2,400,000 at December 31, 2000.

The terms of the note agreements with AIG Life Insurance Company and American International Life Assurance Company of New York contain limitations on payment of cash dividends, re-acquisition of shares, borrowings and investments and require maintenance of specified ratios and a minimum tangible net worth of $12,000,000. ACMAT may also require its insurance subsidiaries to pay dividends to the extent of funds legally available therefore, in order to enable ACMAT to have funds to pay on a timely basis all amounts due with respect to the notes. The Company is in compliance with all of these covenants at December 31, 2000, except for the ratio of Earnings Before Interest Expense, Taxes, Depreciation and Amortization to Fixed Charges. The Company has received a waiver for this covenant.

On July 1, 1992, the Company issued a 30-year unsecured $16,500,000, 11.5% subordinated debenture to the Sheet Metal Workers' National Pension Fund ("Fund") to purchase 3,000,000 shares of United Coasts Corporation's outstanding common stock held by the Fund. Annual principal payments of $1,650,000 per year for ten years are due beginning on July 1, 2012. The note is convertible into ACMAT Class A stock at $11 per share. The conversion price of $11 per share would be adjusted at the time of conversion to reflect any stock dividends, recapitalizations or additional stock issuance. The Company can prepay the note and the Fund has the option to accept the prepayment or convert the note to stock. The Company made a voluntary principal payment of $1,100,000 on July 31, 1998. At December 31, 2000, the Company had reserved 1,400,000 shares of Class A Stock for issuance pursuant to such conversion option.

Principal payments on long-term debt are $3,143,108, $2,589,256, $1,738,716, $1,041,724 and $848,536 for the years 2001 through 2005, respectively. Interest expense paid in 2000, 1999 and 1998 amounted to $2,815,876, $3,751,313, and $5,121,093, respectively.

The fair value at December 31, 2000 of the mortgage, the term loan and the senior notes approximate carrying value. It is not practicable to estimate the fair value of convertible note at December 31, 2000 because of the complex and unique terms associated with this debt instrument.





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(10) INCOME TAXES

The components of income tax expense for each year follows:

| | 2000 | 1999 | 1998 |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Current Taxes: | | | |
| Federal | $ 456,978 | 725,246 | 584,655 |
| State | 65,000 | 50,000 | 62,000 |
| | 521,978 | 775,246 | 646,655 |
| Deferred Taxes: | | | |
| Federal | 726,459 | 428,918 | 73,041 |
| Total | $1,248,437 | 1,204,164 | 719,696 |

The effective income tax rate, as a percentage of earnings before income taxes follows:

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| Federal statutory tax rate | 34.0% | 34.0% | 34.0% |
| State income tax | 1.2 | .8 | 1.4 |
| Effect of tax-exempt interest | (10.6) | (11.5) | (20.8) |
| Dividend received deduction | -- | -- | (4.8) |
| Amortization of goodwill | 3.4 | 2.8 | 3.9 |
| Officers life insurance premiums | 2.6 | 2.0 | 2.8 |
| Other, net | 5.3 | .5 | 8.8 |
| Effective income tax rate | 35.9% | 28.6% | 25.3% |

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2000 and 1999 are presented below:

| | 200 |
|---|---|
| Deferred Tax Assets: | |
| Reserves for losses and loss adjustment expenses, Principally due to reserve discounting | $1,404 |
| Unearned premiums | 306 |
| Accounts receivable, principally due to allowance for doubtful accounts | 50 |
| Unrealized losses on investments | 155 |
| State net operating loss carryforward | 6,717 |
| Other | 77 |
| Total gross deferred tax assets | 8,711 |
| Less valuation allowance | 6,872 |
| Net deferred tax assets | $1,838 |
| Deferred Tax Liabilities: | |
| Plant and equipment | 515 |
| Deferred policy acquisition costs | 489 |
| Total gross deferred tax liabilities | 1,004 |

| | |
|---|---|
| Net deferred tax assets | $ 833 |
| | ====== |

A valuation allowance is provided for the state net operating loss carryforward and the unrealized loss on investments which is not considered realizable. 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, 2000.

State net operating loss carryforwards as of December 31, 2000, 1999 and 1998 were $19,756,132, $23,081,405 and $25,615,231 expiring through 2020, 2003 and 2002, respectively.

Taxes paid in 2000, 1999 and 1998 were $320,405, $703,081 and $52,227, respectively.





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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(11) 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 2000. The thrift, profit sharing and retirement plan was terminated on February 29, 2000. The Company's contributions, established by the Board of Directors, were $85,000 in 1999 and 1998.

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, 2000.

(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 2000, 1999 and 1998, ACMAT repurchased, in open market and privately negotiated transactions 27,239, 7,260, and 4,769 respectively, shares of its Common Stock at an average price of $19.08, $20.93 and $20.65 per share, respectively. The Company also repurchased during 2000, 1999 and 1998, in open market and privately negotiated transactions 253,833, 189,221, and 342,366, respectively, shares of its Class A Stock at an average price of $7.29, $12.52 and $15.10 per share, respectively.

On April 1, 1999, the Company purchased a 40% interest in Allied Surety Agency, Inc. The Company issued 15,000 shares of Class A Stock for the ownership interest. The Company may issue an additional 20,000 shares of Class A Stock if certain performance goals are met by Allied Surety Agency, Inc. The purchase was a non-cash transaction and is not reflected in the Consolidated Statements of Cash Flow.

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

| | 2000 | 1999 |
|---|---|---|
| Options outstanding at December 31 | 337,500 | 274,000 |
| Weighted average price per share of options outstanding | $ 8.27 | $ 8.48 |
| Expiration dates | 1/2001-12/2010 | 1/2001-7/200 |
| Options exercisable at December 31 | 267,500 | -- |
| Options granted | 70,000 | -- |
| Options exercised or surrendered | 6,500 | 18,000 |
| Price ranges of options exercised or surrendered | $ 6.00 | $ 6.00 |

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. The options vest six months after the date of grant. The Board of Directors granted 70,000 options to certain directors and officers on December 16, 2000. There were no stock options granted in 1999 or 1998, however, the exercise price of the Class A Stock options were re-priced at $7.25 on December 16, 1999.





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 $6,900,000 in 2001.

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. In 2000, United Coastal Insurance paid dividends of $8,000,000, a portion of which is considered extraordinary. United Coastal Insurance applied and received approval from the Arizona Insurance Department for the extraordinary portion of dividends paid.

The NAIC recently completed a process intended to codify statutory accounting practices for certain insurance enterprises. As a result, the NAIC issued a revised statutory Accounting Practices and Procedures Manual - version effective January 1, 2001 (the revised Manual) that will be effective for years beginning January 1, 2001. The States of Illinois and Arizona will require that, effective

January 1, 2001, insurance companies domiciled in Illinois and Arizona prepare their statutory basis financial statements in accordance with the revised Manual subject to any deviations prescribed or permitted by the Illinois and Arizona insurance commissioner. The Company has determined the change on the statutory capital and surplus of its insurance subsidiaries will be to increase statutory capital and surplus by approximately $3,900,000.

In accordance with statutory accounting principles, ACMAT's insurance subsidiaries' statutory capital and surplus was $50,646,755 and $49,130,735 at December 31, 2000 and 1999, respectively, and their statutory net income for the years ended December 31, 2000, 1999 and 1998 was $7,641,075, $11,231,410 and $12,078,378, respectively. The primary differences between amounts reported in accordance with GAAP and amounts reported in accordance with statutory accounting principles are excess statutory reserves over statement reserves (Schedule P Liability), 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 and deferred taxes which are recognized for GAAP only.

Pursuant to various debt covenants, previously described, ACMAT is restricted from purchasing treasury stock and paying dividends greater than 20% of consolidated net earnings.

(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, 2000, 1999 and 1998:

| | Earnings | Average Shares Outstanding | Per-Share Amount |
|---|---|---|---|
| 2000: | | | |
| Basic EPS: | | | |
| Earnings available to stockholders | $2,224,317 | 2,796,654 | .80 |
| Effect of Dilutive Securities: | | | |
| Stock options | -- | 38,554 | |
| | $2,224,317 | 2,835,208 | .78 |
| Diluted EPS: | | | |
| Earnings available to stockholders | | | |
| 1999: | | | |
| Basic EPS: | | | |
| Earnings available to stockholders | $3,013,723 | 2,961,817 | $1.02 |
| Effect of Dilutive Securities: | | | |
| Stock options | -- | 80,323 | |
| Diluted EPS: | | | |
| Earnings available to stockholders | $3,013,723 | 3,042,140 | $ .99 |

ACMAT CORPORATION AND SUBSIDIARIES
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| | Earnings | Average Shares Outstanding | Per-Share Amount |
|---|---|---|---|
| 1998: | | | |
| Basic EPS: | | | |
| Earnings available to stockholders | $2,120,529 | 3,199,906 | $.66 |
| Effect of Dilutive Securities: | | | |
| Stock options | -- | 79,029 | |
| Diluted EPS: | | | |
| Earnings available to stockholders | $2,120,529 | 3,278,935 | $.65 |

The Convertible Notes were anti-dilutive in 2000, 1999 and 1998.

(14) 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.

(15) 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.





ACMAT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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:

| | 2000 |
|---|---|
| Revenues: | |
| ACSTAR Bonding | $ 6,284,212 |
| United Coastal Liability Insurance | 7,080,714 |
| ACMAT Contracting | 15,898,910 |
| | $ 29,263,836 |
| Operating Earnings: | |
| ACSTAR Bonding | $ 2,436,708 |
| United Coastal Liability Insurance | 3,549,472 |
| ACMAT Contracting | 1,111,731 |
| | $ 7,097,911 |
| Depreciation and Amortization: | |
| ACSTAR Bonding | $ 535,913 |
| United Coastal Liability Insurance | 371,721 |
| ACMAT Contracting | 639,510 |

| | |
|---|---|
| | $ 1,547,144 |
| Identifiable Assets: | |
| ACSTAR Bonding | $ 41,801,164 |
| United Coastal Liability Insurance | 52,781,561 |
| ACMAT Contracting | 17,633,644 |
| | $ 112,216,369 |
| Capital Expenditures: | |
| ACSTAR Bonding | $ 298,558 |
| United Coastal Liability Insurance | 92,143 |
| ACMAT Contracting | 159,241 |
| | $ 549,942 |

The components of revenue for each segment are as follows:

| | 2000 |
|---|---|
| ACSTAR Bonding: | |
| Premiums | $ 5,032,465 |
| Investment income, net | 1,253,329 |
| Equity income (loss) from limited partnership investment | -- |
| Capital gains (losses) | (5,622) |
| Other | 4,040 |
| | $ 6,284,212 |
| United Coastal Liability Insurance: | |
| Premiums | $ 4,183,439 |
| Investment income, net | 3,001,161 |
| Equity income (loss) from limited partnership investment | -- |
| Capital gains (losses) | (117,503) |
| Other | 13,617 |
| | $ 7,080,714 |
| ACMAT Contracting: | |
| Contract revenues | $ 11,790,207 |
| Investment income, net | 91,655 |
| Inter-segment revenue: | |
| Rental income | 1,260,434 |
| Underwriting services and agency commissions | 1,596,960 |
| Other | 1,159,654 |
| | $ 15,898,910 |

ACMAT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

| | 2000 | 199 |
|---|---|---|
| Revenue: | | |
| Total revenue for reportable segments | $ 29,263,836 | 27,911 |
| Inter-segment eliminations | (2,922,081) | (2,411 |
| | $ 26,341,755 | 25,500 |
| Operating Earnings: | | |
| Total operating earnings for reportable segments | $ 7,097,911 | 8,454 |
| Interest expense | (2,982,824) | (3,738 |
| Intersegment interest expense | (207,194) | |
| Other operating expenses | (435,139) | (498 |
| | $ 3,472,754 | 4,217 |

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.

(16) QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

A summary of the unaudited quarterly results of operations for 2000 and 1999 follows:

| | MARCH 31 | JUNE 30 | SEPTEMBER 30 | DECEMB |
|---|---|---|---|---|
| 2000 | | | | |
| Operating Revenues | $6,081,307 | 6,775,713 | 7,664,456 | 5,820 |
| Operating Earnings | $1,619,190 | 1,520,220 | 1,715,735 | 1,600 |
| Net Earnings | $ 610,307 | 562,609 | 547,359 | 504 |
| Basic Earnings Per Share | $ .21 | .20 | .20 | |

| | | | | |
|---|---|---|---|---|
| Diluted Earnings Per Share | $ .21 | .19 | .20 | |
| 1999 | | | | |
| Operating Revenues | $6,575,571 | 6,265,327 | 7,002,716 | 5,65 |
| Operating Earnings | $2,108,544 | 2,119,645 | 2,033,631 | 1,694 |
| Net Earnings | $ 881,058 | 894,276 | 683,046 | 555 |
| Basic Earnings Per Share | $ .30 | .30 | .23 | |
| Diluted Earnings Per Share | $ .26 | .27 | .22 | |

Note: Operating earnings represent operating revenues less the cost of contract revenues, losses and loss adjustment expenses and amortization of policy acquisition costs and selling, general and administrative expenses.





Schedule I

ACMAT CORPORATION AND SUBSIDIARIES

Condensed Financial Information of Registrant

As of December 31, 2000 and 1999 and for the

years ended December 31, 2000, 1999 and 1998

The following presents the condensed financial position of ACMAT Corporation (parent company only) as of December 31, 2000 and 1999 and its condensed statements of earnings and cash flows for the years ended December 31, 2000, 1999 and 1998.

BALANCE SHEETS

| | 2000 | 1999 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash | $ 1,058,211 | $ 2,418,839 |
| Receivables | 2,751,297 | 1,486,959 |
| Other current assets | 493,003 | 94,249 |
| Total current assets | 4,302,511 | 4,000,047 |

| | | |
|---|---|---|
| Property and equipment, net | 11,998,123 | 12,289,154 |
| Investments in and advance from subsidiaries | 50,630,763 | 51,721,904 |
| Intangibles | 214,912 | 394,959 |
| Other assets | 1,836,562 | 1,701,635 |
| | 68,982,871 | $70,107,699 |

Liabilities and Stockholders' Equity

| | | |
|---|---|---|
| Current liabilities: | | |
| Current portion of long-term debt | 3,143,108 | 1,600,052 |
| Other current liabilities | 3,802,619 | 3,187,987 |
| Total current liabilities | 6,945,727 | 4,788,039 |
| Long-term debt | 24,553,479 | 29,192,668 |
| Total liabilities | 31,499,206 | 33,980,707 |
| Commitments and contingencies | | |
| Stockholders' equity | 37,483,665 | 36,126,992 |
| | $68,982,871 | $70,107,699 |

See Notes to Condensed Financial Statements.

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Schedule I, continued

ACMAT CORPORATION AND SUBSIDIARIES

Condensed Financial Information of Registrant, Continued

STATEMENT OF EARNINGS

| | 2000 | 1999 |
|---|---|---|
| Contract revenues | $ 11,790,207 | 9,223,457 |
| Cost of contract revenues | 11,006,382 | 8,361,408 |
| Gross profit | 783,825 | 862,049 |
| Selling, general and administrative expenses | 4,096,369 | 4,206,660 |
| Operating loss | (3,312,544) | (3,344,611 |

| | | |
|---|---|---|
| Interest expense | (3,190,018) | (3,738,740 |
| Interest income | 91,655 | 78,622 |
| Underwriting fees | 1,268,243 | 1,214,697 |
| Other income | 2,420,088 | 2,335,099 |
| Loss before income taxes and equity in net earnings of subsidiaries | (2,722,576) | (3,454,933 |
| Income tax benefit | (585,000) | (1,010,000 |
| Loss before equity in net earnings of subsidiaries | (2,137,576) | (2,465,569 |
| Equity in net earnings of subsidiaries | 4,361,893 | 5,479,292 |
| Net earnings | $ 2,224,317 | 3,013,723 |

See Notes to Condensed Financial Statements.





Schedule I, Continued

ACMAT CORPORATION AND SUBSIDIARIES

Condensed Financial Information of Registrant, Continued

STATEMENTS OF CASH FLOWS

| | 2000 | 1999 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net earnings | $ 2,224,317 | 3,013,723 |
| Depreciation and amortization | 650,304 | 990,461 |
| Equity in undistributed earnings of subsidiaries | (4,361,893) | (5,479,292 |
| (Increase) decrease in accounts receivable | (1,264,338) | 62,054 |
| (Increase) decrease in other assets | (548,201) | (51,879 |
| Increase (decrease) in other liabilities | 614,632 | (659,180 |
| Net cash used for operating activities | (2,685,179) | (2,124,113 |
| Cash flows from investing activities: | | |
| Capital expenditures | (159,241) | (86,922 |
| Decrease in investment in subsidiaries | 6,910,000 | 13,000,000 |
| Net cash provided by investing activities | 6,750,759 | 12,913,078 |

| | | |
|---|---|---|
| Cash flows from financing activities: | | |
| Borrowings under lines of credit | -- | 9,000,000 |
| Repayments of lines of credit | -- | (9,000,000 |
| Repayment of long-term debt | (3,096,133) | (10,907,280 |
| Issuance of long-term debt | -- | 4,500,000 |
| Issuance of Class A stock, net of taxes | 39,000 | 162,000 |
| Payments for acquisition and retirement of stock | (2,369,075) | (2,521,276 |
| Net cash used for financing activities | (5,426,208) | (8,766,556 |
| Net increase (decrease) in cash | (1,360,628) | 2,022,409 |
| Cash, beginning of year | 2,418,839 | 396,430 |
| Cash, end of year | $ 1,058,211 | 2,418,839 |

See Notes to Condensed Financial Statements.





Schedule I, Continued

ACMAT CORPORATION AND SUBSIDIARIES
Condensed Financial Information
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 2000 Annual Report.

(1) SUPPLEMENTAL CASH FLOW INFORMATION

Income taxes received from subsidiaries during the years ended December 31, 2000, 1999 and 1998 were $118,150, $1,157,813, and $2,355,403, respectively. Interest paid during the years ended December 31, 2000, 1999 and 1998 was $3,023,070, $3,751,313 and $5,173,867, respectively. Interest paid in 2000 included $207,194 paid to subsidiaries for intercompany loans.

(2) LONG-TERM DEBT

A summary of long-term debt at December 31, 2000 and 1999 follows:

| | 2000 | 1999 |
|---|---|---|
| Term Loan Due 2004 | $ 3,250,000 | 4,250,000 |
| Senior Notes Due 2005 | 2,400,000 | 3,900,000 |
| Mortgage Note Due 2008 | 6,646,587 | 7,242,720 |
| Convertible Note Due 2022 | 15,400,000 | 15,400,000 |

| | |
|---|---|
| $27,696,587 | 30,792,720 |
| =========== | ========== |

See Note 9 to the Consolidated Financial Statements in the Annual Report for a description of the long-term debt and aggregate maturities for 2001 to 2005 and thereafter.

(3) INCOME TAXES

See Note 10 to the Consolidated Financial Statements in the Annual Report for a description of income taxes.

(4) COMMITMENTS AND CONTINGENCIES

See Note 14 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, 2000, 1999 and 1998

| Description | Balance at beginning of period | Additions charged to costs and expenses | Deductions (a) | Balanc At end of period |
|---|---|---|---|---|
| Allowance for doubtful accounts: | | | | |
| 2000 | $195,118 | (21,702) | 26,070 | 147,34 |
| 1999 | $257,617 | 180,000 | 242,499 | 195,11 |
| 1998 | $309,746 | 293,149 | 345,278 | 257,61 |

(a) Deductions represent accounts written off.





ACMAT CORPORATION AND SUBSIDIARIES

Schedule V

Supplemental Information concerning property-casualty insurance operations

As of and for the years ended December 31, 2000, 1999 and 1998

| 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 | P |
|---|---|---|---|---|---|
| United Coastal Liability Insurance: | | | | | |
| 2000 | $ 700,835 | 21,367,394 | -- | 3,061,557 | |
| 1999 | $ 692,351 | 27,889,335 | -- | 3,290,024 | |
| 1998 | $1,004,850 | 31,471,445 | -- | 4,650,438 | |
| ACSTAR Bonding: | | | | | |
| 2000 | $ 737,912 | 7,943,212 | -- | 2,831,843 | |
| 1999 | $ 631,429 | 12,571,156 | -- | 2,193,118 | |
| 1998 | $ 545,239 | 14,512,333 | -- | 2,889,186 | |

| Affiliation with Registrant | Losses & Loss Expenses Related Current Year | Adjustment Incurred to Prior Years | Amortization of Deferred Policy Acquisition Costs | Paid Losses and Loss Adjustment Expenses |
|---|---|---|---|---|
| United Coastal Liability Insurance: | | | | |
| 2000 | 1,070,000 | 185,032 | 1,303,916 | 7,252,037 |
| 1999 | 1,660,000 | (225,633) | 1,528,179 | 5,315,006 |
| 1998 | 3,123,183 | (1,167,367) | 1,852,218 | 6,572,054 |

| | | | | |
|---|---|---|---|---|
| | ========= | ========== | ========= | ========= |
| ACSTAR Bonding: | | | | |
| 2000 | 1,371,000 | (1,119,124) | 2,001,561 | 2,145,080 |
| | ========= | ========== | ========= | ========= |
| 1999 | 1,431,120 | (1,192,600) | 1,543,783 | 2,669,290 |
| | ========= | ========== | ========= | ========= |
| 1998 | 1,385,484 | (1,154,572) | 1,225,718 | 146,320 |
| | ========= | ========== | ========= | ========= |

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

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 BU DURING LAST FIVE YEARS, INCLUDIN |
|---|---|---|---|
| HENRY W. NOZKO, SR. (1) | 81 | 1951 | Chairman of the Board, President Officer of the Company. Chairma Director of United Coastal Insur Holdings, Inc. and ACSTAR Insura Co-Chief Executive Officer of Un Insurance Company. |
| HENRY W. NOZKO, JR. (1) | 54 | 1971 | Executive Vice President, Chief and Treasurer of the Company. M Committee. President, Co-Chief Treasurer of United Coastal Insu President and Treasurer of ACSTA ACSTAR Insurance Company. Membe Directors of United Coastal Insu Holdings, Inc., ACSTAR Insurance |
| VICTORIA C. NOZKO (1) | 82 | 1982 | Housewife during past five years |
| JOHN C. CREASY | 81 | 1987 | Retired Chief Executive Officer Member, Board of United Coastal Member of the Compensation Commi Committee. |

| | | | |
|---|---|---|---|
| ARTHUR R. MOORE | 67 | 1999 | Former General President of Shee International Association. Memb Committee. |
| ALFRED T. ZLOTOPOLSKI | 54 | 1999 | General Secretary-Treasurer of t Workers' International Associati 1999. Previously was the Busine President of Local 36 of the She International Association. Memb Committee. |

(1) Mr. Henry W. Nozko, Sr. and Mrs. Victoria C. Nozko are husband and wife and Mr. Henry W. Nozko, Jr. is their son.





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, Sr. | 81 | President, Chief Executive Officer, Director and Chairman of the Board since 1951. |
| Henry W. Nozko, Jr. | 54 | Executive Vice President since 1982. Treasurer since 1973. Director since 1971, and Chief Operating Officer since 1985. |
| Robert H. Frazer | 54 | Vice President since 1982. Secretary since 1992. General Counsel since 1977. |
| Michael P. Cifone | 42 | Vice President-Finance since 1990. Corporate Controller since 1989. |





The following table provides information on option grants during 2000 to the named Executive Officers.

OPTIONS GRANTED IN LAST FISCAL YEAR

INDIVIDUAL GRANTS

| | STOCK OPTIONS GRANTED (A) | PERCENTAGES OF TOTAL OPTIONS GRANTED TO INDIVIDUALS IN FISCAL YEAR | EXERCISE PRICE ($/SH) | EXPIRATION DATE | AS |
|---|---|---|---|---|---|
| Henry W. Nozko, Sr. | 10,000 | 14.29% | $7.25 | 12/14/2010 | |
| Henry W. Nozko, Jr. | 10,000 | 14.29% | $7.25 | 12/14/2010 | |
| Michael P. Cifone | 10,000 | 14.29% | $7.25 | 12/14/2010 | |

(A) Options were granted at an exercise price equal to the fair market value per share of ACMAT Corporation's Class A Stock as of the date of grant and are exercisable starting six months after the grant date.

(B) Potential realizable values are net of exercise price, but before taxes associated with exercise. Amounts represent hypothetical gains that could be achieved for the respective options if exercised at the end of the option term. The assumed 5% and 10% rates of stock price appreciation are provided in accordance with rules of the Securities and Exchange Commission and do not represent the Company's estimate or projection of the future stock price. Actual gains, if any, on stock option exercises are dependent on the future performance of the stock, overall market conditions and the option holders' continued employment through the vesting period. This table does not take into account any appreciation in the price of the Class A Stock from the date of grant to date.

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ITEM 11. EXECUTIVE COMPENSATION

Directors who are not employees of the Company are paid an annual fee of $4,000.

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

| NAME AND PRINCIPAL POSITION | YEAR | ANNUAL COMPENSATION (A) SALARY | BONUS |
|---|---|---|---|
| Henry W. Nozko, Sr. | 2000 | $460,700 | $200,000 |
| Chairman, President | 1999 | $447,200 | $395,000 |
| And Chief Executive Officer | 1998 | $447,200 | $ -- |
| Henry W. Nozko, Jr. | 2000 | $332,000 | $150,000 |
| Executive Vice President and Chief | 1999 | $322,500 | $315,000 |
| Operating Officer | 1998 | $322,500 | $ -- |
| Robert H. Frazer, Esq | 2000 | $136,069 | $ -- |
| Vice President, Secretary and | 1999 | $171,600 | $ 25,000 |
| General Counsel | 1998 | $171,600 | $ -- |

| | | | |
|---|---|---|---|
| Michael P. Cifone | 2000 | $154,500 | $100,000 |
| Vice President-Finance | 1999 | $150,000 | $155,000 |
| | 1998 | $114,400 | $ -- |

(A) Amounts shown include cash compensation earned and received by the executive officers. There are no other forms of non-cash compensation or other perquisites for any executive officer.

The Company has a Management Compensation Plan based upon earnings of the Company. As a guideline, the plan provides that participants may share in an incentive fund equal to 12% of pretax earnings, provided such pretax earnings amount to at least a 10% return on the Company's equity. However, both the participants and the amount of bonus are discretionary, provided the total amount of bonuses paid do not exceed the total incentive fund available. In addition, the Company may offer separate incentives and commissions on an individual basis.

(B) The amounts shown in this column represent contributions made by the Company to the Company's Thrift, Profit Sharing and Retirement Plan ("Plan"). The Plan provides that 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 2000 by the named Executive Officers and the value of their unexercised options at December 31, 2000.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR
AND FISCAL YEAR END 2000 OPTION VALUES

| Name | Number of Unexercised Options at 12/31/00 (1) | Value of U In-the-Mon at 12/ |
|---|---|---|
| | Exercisable/Unexercisable | Exercisable/ |
| Henry W. Nozko, Sr. | | |
| - ACMAT Class A Stock Options | 46,000/10,000 | |
| - ACMAT Common Stock Options | 50,000/- | $412 |
| Henry W. Nozko, Jr. | | |
| - ACMAT Class A Stock Options | 45,000/10,000 | - |
| - ACMAT Common Stock Options | 50,000/- | $412 |
| Robert H. Frazer | | |
| - ACMAT Class A Stock Options | 35,000/- | - |
| Michael P. Cifone | | |
| - ACMAT Class A Stock Options | 10,000/10,000 | - |

(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.





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

As of March 15, 2001, 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) | PERC OF C OUTST |
|---|---|---|---|
| Henry W. Nozko, Sr. | Common | 417,980 (4) | 68 |
| | Class A | 61,000 (3) | 3 |
| Henry W. Nozko, Jr. | Common | 196,924 (2)(4) | 32 |
| | Class A | 169,074 (2)(5) | 8 |
| Victoria C. Nozko | Class A | 52,000 (6) | 2 |
| John C. Creasy | Common | -- | |
| | Class A | 26,500 (7) | 1 |
| Arthur R. Moore | Class A | 10,000 (8) | |
| Alfred T. Zlotopolski | Class A | 10,000 (8) | |
| Sheet Metal Workers' National Pension Fund | Class A | 1,400,000 (9) | 41 |
| Franklin Resources, Inc. | Class A | 443,500 (10) | 22 |
| Queensway Financial Holdings Limited | Class A | 314,050(11) | 16 |
| EQSF Advisors, Inc. | Class A | 200,678 (12) | 10 |
| First Manhattan Co. | Class A | 175,513 (13) | 8 |
| Old Kent Financial Corp. | Class A | 130,000 (14) | 6 |
| All Directors and Officers (8 persons) As a Group | Common | 614,904 | 93 |
| | Class A | 384,289 | 17 |

(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 5,925 shares of Common Stock held by his wife, Gloria C. Nozko.

(3) Includes options to purchase 56,000 shares of Class A Stock.

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

(5) Includes options to purchase 55,000 shares of Class A Stock.

(6) Includes options to purchase 25,000 shares of Class A Stock.

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

(8) Includes option to purchase 10,000 shares of Class A Stock.

(9) Assumes the full conversion of $15,400,000 principal amount of 11.5% Convertible Note into 1,400,000 shares of Class A Stock. The Address of the Fund is Suite 500, 601 North Fairfax Street, Alexandria, VA 22314.

(10) Address of Franklin Resources, Inc. is 777 Mariners Island Blvd. San Mateo, CA 94404.

(11) Address of Queensway Financial Holdings Limited is 90 Adelaide Street West, Toronto, Ontario M5H3V9.

(12) Address of EQSF Advisors, Inc. is 767 Third Avenue, New York, NY 10017-2023.

(13) Address of First Manhattan Co. is 437 Madison Avenue, New York, NY 10022.

(14) Address of Old Kent Financial Corp. is 111 Lyon Street N.W., Grand Rapids, MI 49503.

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





ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS:

Sheet Metal Workers' National Pension Fund

The Pension Fund has the right to convert indebtedness of ACMAT to the Pension Fund in the principal amount of $15,400,000 into shares of Class A Stock at the current conversion price of $11.00 per share pursuant to the terms of a 30-year unsecured, subordinated debenture dated July 1, 1992 and bearing interest at the annual rate of 11.5%.

Henry W. Nozko, Sr., Henry W. Nozko, Jr. and the Pension Fund are parties to a voting agreement pursuant to which the parties have agreed to vote their respective shares of Class A Stock in favor of the Pension Fund's nominees to the ACMAT Board of Directors.

AIG Life Insurance Company

On February 5, 1997, ACMAT Corporation purchased 1,099,996 shares of its own Class A Stock from AIG Life Insurance Company (366,663 shares) and American International Life Assurance Company of New York (733,333 shares). The 1,099,996 shares of Class A Stock were acquired throughout the past two years by AIG Life Insurance Company and American International Life Assurance Company of New York pursuant to the conversion options of the Convertible Senior Notes. The shares were purchased by the Company at an average price of $14.70 per share for a total purchase price of $16,174,942.

The purchase price of $16,174,942 consisted of $4,174,942 in cash and promissory notes totaling $12,000,000. The promissory notes are with AIG Life Insurance Company and American International Life Assurance Company of New York and are payable over eight years with interest at prime rate. The interest rate is equal to the prime rate, however, it shall not exceed 9-1/4% and it shall not be less than 7-1/4%.

American International Group, Inc., a holding company for AIG Life Insurance Company and American International Life Assurance Company of New York, is a substantial owner of Transatlantic Reinsurance Company, a reinsurer to which the Company, through Coastal Insurance and ACSTAR Insurance, ceded approximately $389,000 in reinsurance premiums in the year ended December 31, 2000.

Other Relationships

During the year ended December 31, 2000, the Company paid to Dr. Arthur Cosmas $157,781 in fees in connection with consulting services rendered by Dr. Cosmas with respect to inspection and engineering services relating to ACMAT's asbestos abatement activities. Dr. Cosmas is the son-in-law of Henry W. Nozko, Sr. and Victoria C. Nozko and the brother-in-law of Henry W. Nozko, Jr.

PART IV

ITEM 14. 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, 2000, 1999 and 1998
Consolidated Balance Sheets as of December 31, 2000 and 1999
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2000, 1999 and 1998
Consolidated Statements of Cash Flows for the years ended December 31, 2000, 1999 and 1998
Notes to Consolidated Financial Statements - December 31, 2000, 1999 and 1998





2. Financial Statement Schedules

Consolidated Schedules included in Part II of this Report-Years ended December 31, 2000, 1999 and 1998:

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 2000.

(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.

(4b) 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.

(4c) 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.

(4d) Commercial Credit 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.

(4e) 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, 1999 is incorporated by reference.

(4f) Term 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, 1999 is incorporated by reference.

(10a) Annual Management Compensation Plan as filed as an Exhibit to the Company's 1984 Form 10-K is incorporated herein by reference.

(10b) Stock Purchase Agreement dated as of July 1, 1992 between ACMAT Corporation and the Sheet Metal Workers' National Pension Fund together with Note Agreement Re: 11 1/2% Convertible Subordinated Notes due 2012 filed as Exhibit 10g to the Company's Form 10-K for the year ended December 31, 1992 is incorporated herein by reference.

(21) Subsidiaries of ACMAT.

(27) Financial Data Schedule.





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, 2001 By: /s/ Henry W. Nozko, Sr.

------------------------------

Henry W. Nozko, Sr., 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, Sr<br>------------------------------<br>Henry W. Nozko, Sr. | Chairman of the Board, President, Chief Executive Officer and Director | March 30, 2001 |
| /s/ Henry W. Nozko, Jr.<br>------------------------------<br>Henry W. Nozko, Jr. | Chief Operating Officer, Executive Vice President Treasurer and Director | March 30, 2001 |
| /s/ Michael P. Cifone<br>----------------------<br>Michael P. Cifone | Vice President - Finance (Principal Financial and Accounting Officer) | March 30, 2001 |
| /s/ Victoria C. Nozko<br>------------------------------<br>Victoria C. Nozko | Director | March 30, 2001 |
| /s/ John C. Creasy<br>-----------------------------<br>John C. Creasy | Director | March 30, 2001 |

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INDEX TO EXHIBITS

| Regulation S-K Exhibit | | Page Number |
|---|---|---|
| Exhibit 3 | - Bylaws | |
| Exhibit 3a | - Certificate of Incorporation as amended May 1, 1991 | |

| | | |
|---|---|---|
| Exhibit 4b | - | Promissory Note between ACMAT and Webster Bank |
| Exhibit 4c | - | Open-end Mortgage Deed/Security Agreement between ACMAT and Webster Bank. |
| Exhibit 4d | - | Commercial Credit Agreement between ACMAT and Webster Bank |
| Exhibit 4e | - | Revolving Credit Note between ACMAT and Webster Bank |
| Exhibit 4f | - | Term Note between ACMAT and Webster Bank |
| Exhibit 10a | - | Annual Management Compensation Plan |
| Exhibit 10b | - | Stock Purchase and Note Agreement between ACMAT Corporation and The Sheet Metal Workers' National Pension Fund |
| Exhibit 21 | - | Subsidiaries of ACMAT |