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ACMAT CORP
Form 10-K
April 01, 2002

SECURITIES AND EXCHANGE COMMISSION
FORM 10-K

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

For the fiscal year ended December 31, 2001

OR

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

For the transition period from _____ to _____

Commission file number 0 - 6234

ACMAT CORPORATION
(Exact name of registrant as specified in its charter)

Connecticut	06-0682460
-----	-----
(State of incorporation)	(I.R.S. Employer Identification No.)
233 Main Street	
New Britain, Connecticut	06050-2350
-----	-----
(Address of principal executive offices)	(Zip Code)

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

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

Securities registered pursuant to Section 12 (g) of the Act:

Common Stock, without par value
Class A Stock, without par value

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) or the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes XX No

The aggregate market value as of March 1, 2002 of the Common Stock and Class A Stock held by non-affiliates of the registrant was \$16,887,647.

As of March 1, 2002 there were 553,355 shares of the registrant's Common Stock and 1,827,019 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 products, professional, environmental and other liability insurance primarily to general contractors and specialty trade contractors, manufacturers and distributors 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 A.M. Best Co., Inc. ("A.M. Best").

The Company is also engaged in construction contracting which consists of general building construction for new buildings and interior contracting services of building interiors 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 40 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.

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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 general liability policies, professional liability policies, and product 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.

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- 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

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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.

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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 Fitch Ratings. However, no assurance can be made that such financial institutions will maintain their financial strength and, thus, that funds guaranteed under letters of credit will be available, if needed, to offset any potential claims.

The Company provides the following types of bonds:

- Payment and performance bonds - Bonds are provided for general building and specialty trade contractors, environmental remediation and asbestos abatement contractors and consultants, lead abatement contractors and solid waste disposal contractors. A payment and performance bond guarantees satisfactory performance and completion of the contractor's work and payment of the contractor's debts and obligations relating to the performance of the contract covered by the bond.
- Closure and post-closure bonds - Bonds are provided for owners of solid and hazardous waste landfills as required to meet certain requirements under RCRA and remediation bonds in connection with the Comprehensive

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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,		
	2001	2000	1999
	-----	-----	-----
GAAP Ratios:			
Loss ratio	20.3%	16.4%	17.6%
Expense ratio	69.3	58.9	56.6
	-----	-----	-----
GAAP combined ratio	89.6	75.3	74.2
	=====	=====	=====
Statutory Ratios:			
Loss ratio	20.3	16.4	17.6
Expense ratio	77.3	63.6	63.3
	-----	-----	-----
Statutory combined ratio	97.6%	80.0%	80.9%
	=====	=====	=====

The increase in the combined ratios over the past year results primarily from the decline in written premiums due to selective underwriting while expenses remained flat. See Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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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 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. Reinsurance ceded also includes facultative reinsurance which is applicable to excess policies written over a primary policy issued by the Company for specific projects. Reinsurance is ceded to limit losses from large exposures and to permit recovery of a portion of direct losses; however, such a transfer does not relieve the originating insurer of its liability. 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.

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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, 2001 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.

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Reserves for losses and loss adjustment expenses are established with respect to both reported and incurred but not reported claims for insured risks. The amount of loss reserves for reported claims is primarily based upon a case-by-case evaluation of the type of risk involved, knowledge of the circumstances surrounding each claim and the policy provisions relating to the type of claim. 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.

	2001	2000	1999
	-----	-----	-----
Balance at January 1	\$ 29,310,606	\$ 38,544,491	\$ 43,115,062
Less reinsurance recoverable	2,580,388	3,924,064	2,224,116
	-----	-----	-----
Net balance at January 1	26,730,218	34,620,427	40,890,946
Incurred related to:			
Current year	4,144,000	2,441,000	3,091,120
Prior years	(2,607,978)	(934,092)	(1,418,233)
	-----	-----	-----
Total incurred	1,536,022	1,506,908	1,672,887
Payments related to:			
Current year	1,723,000	791,546	81,569
Prior years	6,730,282	8,605,571	7,861,837
	-----	-----	-----
Total Payments	8,453,282	9,397,117	7,943,406
Net balance at December 31	19,812,958	26,730,218	34,620,427
Plus reinsurance recoverable	2,772,668	2,580,388	3,924,064
	-----	-----	-----
Balance at December 31	\$ 22,585,626	\$ 29,310,606	\$ 38,544,491

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The decrease in loss and loss adjustment expense reserves continues due to significant loss payments for surety and general liability claims, the release of net favorable development in surety loss reserves relating to older years that are no longer required partially offset by an increase in current year incurred loss and loss adjustment expenses. This increase reflects large surety losses which occurred during the year. While management continually evaluates the potential for changes in loss estimates, due to the uncertainty inherent in the surety business, the emergence of net favorable development may or may not continue to occur. Management believes that the reserves for losses and loss adjustment expense are adequate to cover the unpaid portion of the ultimate net cost of losses and loss adjustment expenses, including losses incurred but not reported.

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

As of December 31, 2001, 2000 and 1999 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 \$19,812,958, \$29,375,218, and \$40,715,475, respectively. As of December 31, 2001, 2000 and 1999 reserves determined in accordance with generally accepted accounting principles ("GAAP basis reserves") were \$22,585,626, \$29,310,606 and \$38,544,491, 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 for 2000 and 1999. In 2001, revised statutory accounting principles removed the requirement for minimum statutory, or "Schedule P" reserves.

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 re-estimated liabilities for that accident year and all prior accident years making up that calendar year-end reserve.

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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.

1991	1992	1993	1994	1995	1996	1997	1998	1999
----	----	----	----	----	----	----	----	----
(thousands)								

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Liability for unpaid losses and loss adjustment expenses	26,234	29,240	30,437	36,726	41,363	44,119	45,423	40,891	34
Liability reestimated as of:									
One year later	26,234	29,240	30,437	35,825	40,193	43,282	43,106	37,816	33
Two years later	26,234	29,240	28,337	34,659	37,872	40,865	35,698	36,741	27
Three years later	26,234	26,000	27,170	29,913	35,354	33,359	33,735	31,108	
Four years later	22,094	24,833	23,550	27,193	28,149	30,999	27,004		
Five years later	20,927	22,284	20,880	19,486	25,057	25,663			
Six years later	18,841	19,914	13,673	16,254	21,499				
Seven years later	16,932	13,148	11,915	14,125					
Eight years later	11,761	11,163	10,819						
Nine years later	10,412	10,407							
Ten years later	10,152								
Cumulative Redundancy (deficiency):	16,082	18,833	19,618	22,601	19,864	18,456	18,419	9,783	6
Paid (cumulative) as of:									
One year later	3,216	6,142	1,560	2,361	3,067	2,942	6,703	7,903	8
Two years later	8,699	7,574	3,655	4,582	5,256	8,951	13,928	14,843	13
Three years later	9,576	8,603	5,022	6,412	8,922	16,047	16,655	19,920	
Four years later	10,488	9,554	6,189	7,969	15,601	18,597	20,208		
Five years later	10,816	9,818	6,869	12,425	17,564	21,791			
Six years later	10,856	10,034	9,723	13,094	19,885				
Seven years later	10,949	10,761	10,296	13,902					
Eight years later	11,445	10,787	11,058						
Nine years later	11,449	11,357							
Ten years later	11,579								
Gross liability - end of year			34,730	40,955	45,235	47,960	48,901	43,115	38
Reinsurance recoverable			4,293	4,229	3,872	3,841	3,478	2,224	3
Net liability - end of year			30,437	36,726	41,363	44,119	45,423	40,891	34

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

Because of the change in reporting loss data for claims-made policies from an accident year basis to a report year basis, prior accident year reserves have been moved forward to fall within the report year resulting in no change to

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total reserve amounts or estimates. Management believes that the aggregate reserves for losses and loss adjustment expenses for all accident years are adequate.

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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, 2001, 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 2001 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, 2001 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, 2001 and 2000:

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	December 31, 2001 -----	December -----
Total Number of Contracts.	7	
Total unbilled contract amounts.	\$14,000,000	\$16,
Number of contracts with unbilled amounts in excess of \$400,000.	5	
Aggregate unbilled amount of contracts in excess of \$400,000.	\$13,946,000	\$15,

The Company estimates that all of the December 31, 2001 backlog will be completed prior to December 31, 2002.

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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.

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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.

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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"), 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

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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., AIG and CNA. The Company's insurance subsidiaries hold primary and reinsurance certificates of authority as acceptable sureties on Federal bonds as do approximately 250 to 300 other surety companies. The certificates give the Company an advantage over companies which are not certified by the United States Treasury Department with respect to surety bonding on Federal projects in that such certification has become a standard with respect to both Federal and other bonds. Approximately one-half of the surety bonds written by the Company's subsidiaries are required to be provided by a Treasury listed company. With respect to other bonds, the Company faces competition from as many as 1,000 additional non-certified surety companies.

ACMAT Contracting

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

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

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

State insurance regulations impose certain restrictions upon the types of investments that the Company's insurance subsidiaries can acquire and the percentage of their capital or assets that may be placed in any particular investment or type of investment. Certain states also require insurance

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companies to furnish evidence of financial security by means of a deposit of marketable securities with the state insurance regulatory authority. On December 31, 2001, the Company's insurance subsidiaries had securities with an aggregate book value of approximately \$10.4 million on deposit with various state regulatory authorities.

The insurance subsidiaries of ACMAT are restricted as to the amount of cash dividends they may pay. 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 2001, United Coastal Insurance paid \$6,000,000 in dividends. At January 1, 2002, approximately \$2,245,000 is available for the payment of dividends by United Coastal Insurance in 2002 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 2001, ACSTAR paid \$2,500,000 in dividends to ACSTAR Holdings. At January 1, 2002, approximately \$3,685,000 is available for the payment of dividends by ACSTAR Insurance in 2002 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.

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.

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, 2001 and 2000 (dollars in thousands):

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	December 31,			
	2001		2000	
	Amount	Percent Of Total	Amount	Percent Of Total
Fixed maturities available for sale (1):				
U.S. government and government agencies and authorities	\$21,112	31.3%	\$17,271	22.7%
State and political subdivisions	12,297	18.2	28,341	37.2
Industrial and Miscellaneous	9,082	13.5	19,825	26.0
Mortgage-backed securities	19,720	29.2	4,934	6.5
Total fixed maturities available for sale	62,211	92.2	70,371	92.4
Equity securities(2)	4,917	7.3	2,221	2.9
Mortgages (3)	--	--	290	.4
Short-term investments (4)	372	.5	3,249	4.3
Total investments	\$67,500	100.0%	\$76,131	100.0%

- (1) Fixed maturities available for sale are carried at fair value. Total cost of fixed maturities was approximately \$61,841,000 at December 31, 2001 and \$70,488,000 at December 31, 2000.
- (2) Equity securities are carried at fair value. Total cost of equity securities was approximately \$5,065,000 at December 31, 2001 and \$2,560,000 at December 31, 2000.
- (3) Mortgages are carried at amortized cost which approximates 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 our combined fair value of fixed maturity investment portfolio classified by maturity distribution at December 31, 2001 and 2000 (dollars in thousands):

	December 31,			
	2001		2000	
	Amount	Percent Of Total	Amount	Percent Of Total
Due in (1):				
One year or less	\$18,750	30.1%	\$23,926	34.0%
After one year through five years	30,545	49.1	39,014	55.4

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After five years through ten years	2,922	4.7	3,132	4.5
After ten years	9,994	16.1	4,299	6.1
	-----	-----	-----	-----
	\$62,211	100.0%	\$70,371	100.0%
	=====	=====	=====	=====

- (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, 2001, the Company's investments complied with such laws and regulations.

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Investment results for the years ended December 31, 2001, 2000 and 1999 are shown in the following table (dollars in thousands):

	2001	2000	1999
	-----	-----	-----
Invested assets (1)	\$ 83,403	\$ 90,619	\$111,559
Investment income (2)	\$ 4,032	\$ 4,571	\$ 5,390
Average yield	4.83%	5.04%	4.83%

- (1) Average of the aggregate invested amounts at the beginning of the period and at end of each quarter including cash and cash equivalents.
- (2) Investment income is net of investment expenses and does not include realized investment gains or losses or provision for income taxes.

The yields reflect the Company's investment strategy of investing in high quality securities. In 2001, the interest rate environment decreased led by reduction in U.S. Treasury rates, reflected in the marginal drop in yield. Invested assets are attributable to the net cash flow generated by written premiums, cash collateral and the reinvestment of investment income offset in part by cash used to repay debt, repurchase stock and pay claims.

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, 2001, 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.

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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 2001.

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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.

	2001		2000	
	HIGH	LOW	HIGH	LOW
COMMON STOCK				
1st Quarter	20	19.25	19	19
2nd Quarter	25	19	19	19
3rd Quarter	19	19	19	17
4th Quarter	19	19	26	19
CLASS A STOCK				
1st Quarter	11.88	7.38	13-1/16	6-1/8
2nd Quarter	9.98	7.85	8-3/4	7-1/8
3rd Quarter	11.20	7.15	8-3/8	6-1/2
4th Quarter	7.88	7.0	10	6-13/16

No dividends have been paid in the past five years and there is no intention of paying dividends in the near future. As of March 1, 2002, there were 280 Common Stock shareholders of record and 600 Class A Stock shareholders of record.

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ITEM 6. SELECTED FINANCIAL DATA

	2001 ----	2000 ----	1999 ----	1998 ----
Revenues	\$ 26,962,807	\$26,341,755	\$25,500,249	\$28,752,273
Total Assets	109,463,456	112,216,369	125,855,611	146,126,465
Long-Term Debt	24,550,361	27,696,587	30,792,720	37,200,000
Stockholders' Equity	37,972,175	37,483,665	36,126,992	37,622,926
Net Earnings	1,706,588	2,224,317	3,013,723	2,120,529
Basic Earnings Per Share	.70	.80	1.02	.66
Diluted Earnings Per Share	.68	.78	.99	.65

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

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS:

CONSOLIDATED RESULTS OF OPERATIONS:

Net earnings were \$1,706,588 in 2001, \$2,224,317 in 2000 and \$3,013,723 in 1999. The decrease in 2001 net earnings compared to the 2000 net earnings was due primarily to a decrease in earned premiums and an increase in the loss ratio partially offset by an increase in realized capital gains. 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.

Revenues were \$26,962,807 in 2001, \$26,341,755 in 2000 and \$25,500,249 in 1999. The increase in 2001 revenues compared to the 2000 revenues is due primarily to an increase in contract revenues and realized gains offset in part by a decrease in earned premiums and net investment income. Earned premiums were \$7,581,276 in 2001, \$9,215,904 in 2000 and \$9,414,192 in 1999. The decrease in earned premiums over the past two years reflects the Company's strategy to selectively underwrite during uncertain economic times. Contract revenues were \$14,074,878 in 2001, \$11,790,207 in 2000 and \$9,223,457 in 1999. Contract revenue depends greatly on the successful securement of contracts bid and execution.

Investment income was \$4,031,793 in 2001, \$4,570,927 in 2000 and \$5,389,732 in 1999. 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 \$374,301 in 2001, (\$123,125) in 2000 and \$252,190 in 1999.

Other income was \$900,559 in 2001, \$887,842 in 2000 and \$1,220,678 in 1999. Other income consists primarily of rental income. The increase in 2001 other incomes compared to 2000 reflects an increase in construction administration fees in 2001 offset by a lease termination fee received from a tenant in 2000. Other income in 1999 included a one-time benefit of approximately \$330,000.

Losses and loss adjustment expenses were \$1,536,022 in 2001, \$1,506,908 in 2000 and \$1,672,887 in 1999. The increase in losses and loss adjustment expenses for 2001 are attributable to an increase in surety loss ratio offset in part by a decrease in current year earned premiums.

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Amortization of policy acquisition costs were \$2,049,946 in 2001, \$2,375,038 in 2000 and \$2,223,918 in 1999. The decrease in amortization of policy acquisition costs in 2001 is primarily attributable to the decrease in commission rates for agents and decrease in earned premium.

Costs of contract revenues were \$13,183,057, in 2001, \$11,006,382 in 2000 and \$8,261,408 in 1999. The gross profit margins on construction projects were 6.3% in 2001, 6.6% in 2000 and 10.4% in 1999. Gross margins fluctuate each year based upon the profitability of specific projects.

General and administrative expenses were \$4,856,785 in 2001, \$4,997,849 in 2000 and \$5,385,409 in 1999. The decrease in general and administrative expenses in 2001 compared to 2000 is due primarily to a decrease in salary expense offset in part by an increase in depreciation expense. The decrease in general and administrative expenses in 2000 compared to 1999 is due primarily to the decrease in intangible amortization expense.

Interest expense was \$2,723,052 in 2001, \$2,982,824 in 2000 and \$3,738,740 in 1999. The decrease in interest expense is due to the decrease in long-term debt.

Income tax expense was \$907,357 in 2001, \$1,248,437 in 2000 and \$1,204,164 in 1999, representing effective tax rates of 34.7%, 35.9% and 28.6%, 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:	2001 -----	2000 -----	1999 -----
Revenue	\$5,487,683	\$6,284,212	\$6,227,462
Operating Earnings	\$2,098,548	\$2,436,708	\$2,968,882

Revenues for the ACSTAR Bonding segment were \$5,487,683 in 2001, \$6,284,212 in 2000 and \$6,227,462 in 1999. The 2001 decrease in revenue is primarily due to a 24% decrease in earned premiums and partly offset by

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an increase in investment income and realized gains. The 2000 increase in revenue reflects a slight increase in earned premium compared to 1999.

Investment income was \$1,560,080 in 2001, \$1,253,329 in 2000 and \$1,268,175 in 1999. The increase in 2001 investment income was primarily related to a decrease in investment expenses. 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 \$191,670 in 2001, (\$5,622) in 2000 and \$51,616 in 1999.

Operating earnings for the ACSTAR Bonding segment were \$2,098,548 in 2001, \$2,436,708 in 2000 and \$2,968,882 in 1999. The decrease in operating earning in 2001 is primarily related to lower earned premium and higher loss ratios partially offset by higher net investment income and capital gains. The decrease in operating earnings reflects the Company's new reinsurance program and an increase in the losses and loss adjustment expense.

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Losses and loss adjustment expenses were \$404,260 in 2001, \$251,876 in 2000 and \$238,520 in 1999. The increase in 2001 losses and loss adjustment expense compared to 2000 reflects an increase in the loss and loss adjustment expense ratio, offset in part by a decrease in current year earned premiums and the release of net favorable development in surety loss reserves relating to older years.

Amortization of policy acquisition costs were \$1,601,377 in 2001, \$2,001,561 in 2000 and \$1,543,783 in 1999. The change in amortization of policy acquisition costs is primarily attributable to the change in direct written premiums and a change in the average commissions paid to agents.

General and administrative expenses were \$1,383,498 in 2001, \$1,594,067 in 2000 and \$1,476,277 in 1999. The decrease in general and administrative expenses in 2001 is primarily due to reduced funds control expenses in 2001 compared to 2000. 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 in 2000. 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 for a fee.

UNITED COASTAL LIABILITY INSURANCE:

	2001 -----	2000 -----	1999 -----
Revenues	\$6,363,392	\$7,080,714	\$8,529,279
Operating Earnings	\$2,810,000	\$3,549,472	\$4,578,802

Revenues for the United Coastal Liability Insurance segment were \$6,363,392 in 2001, \$7,080,714 in 2000 and \$8,529,279 in 1999. The 2001 decrease in revenue reflects a 10% decrease in earned premiums and a 21% decrease in investment income compared to 2000. The 2000 decrease in revenue reflects a 12% decrease in earned premiums and a 16% decrease in investment income compared to 1999. The decrease in revenues over the past two years reflects the Company's strategy to selectively underwrite during uncertain economic times and a reduction in invested assets to pay dividends to pay parent to reduce corporate debt.

Investment income was \$2,385,377 in 2001, \$3,001,161 in 2000 and \$3,557,332 in 1999. 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 \$182,631 in 2001, (\$117,503) in 2000 and \$200,574 in 1999.

Operating earnings for the United Coastal Liability Insurance segment were \$2,810,000 in 2001, \$3,549,472 in 2000 and \$4,578,802 in 1999. The decrease in operating earnings is due primarily to a decrease in earned premiums and investment income.

Losses and loss adjustment expenses were \$1,131,762 in 2001, \$1,255,032 in 2000 and \$1,434,367 in 1999. The decrease in losses and loss adjustment expenses is attributable to the decrease in earned premiums.

Amortization of policy acquisition costs were \$1,286,409 in 2001, \$1,303,916 in 2000 and \$1,528,179 in 1999. The decrease in amortization of policy acquisition costs is primarily attributable to the decrease in earned premiums.

General and administrative expenses were \$1,135,221 in 2001, \$972,294 in 2000 and \$987,931 in 1999. The increase in general and administrative expenses is due

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primarily to an increase in expenses related to our tri-annual statutory audit in 2001.

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ACMAT CONTRACTING:	2001 -----	2000 -----	1999 -----
Revenues	\$17,540,369	\$15,898,910	\$13,154,753
Operating Earnings	\$ 912,376	\$ 1,111,731	\$ 907,228

Revenues for the ACMAT Contracting segment were \$17,540,369 in 2001, \$15,898,910 in 2000 and \$13,154,753 in 1999. The 2001 increase in revenue reflects a 19% increase in contract revenues compared to 2000. The 2000 increase in revenue reflects a 28% increase in contract revenues compared to 1999. Contract revenue depends greatly on the successful securement of contracts bid and execution.

Operating earnings for the ACMAT Contracting segment were \$912,376 in 2001, \$1,111,731 in 2000 and \$907,228 in 1999. The decrease in 2001 operating earnings compared to 2000 operating earnings is due primarily to a decrease in funds control income and lower gross profit on contracts in 2001. 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.

Cost of contract revenues were \$13,183,057 in 2001, \$11,006,382 in 2000 and \$8,261,408 in 1999. The gross profit margin on construction projects was 6.3% in 2001, 6.6% in 2000 and 10.4% in 1999. Gross margin fluctuations each year based upon the profitability of specific projects.

General and administrative expenses were \$3,444,936 in 2001, \$3,780,797 in 2000 and \$3,886,117 in 1999. The decrease in general and administrative expenses in 2000 compared to 1999 is due primarily to the decrease in amortization of intangibles. The decrease in general and administrative expenses in 2001 compared to 2000 is due primarily to a decrease in salary expense in 2001.

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. This is a critical accounting policy for the insurance operations.

Management believes that the reserves for losses and loss adjustment expenses at December 31, 2001 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

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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 20.3%, 16.4% and 17.6% for the years ended December 31, 2001, 2000 and 1999, respectively. These loss ratios are below industry averages and are believed to be the result of conservative underwriting. The increase in the 2001 loss ratios is due to an increase in surety loss ratio. There can be no assurance that such loss ratios can continue. The Company's insurance subsidiaries' expense ratios under GAAP were 69.3%, 58.9% and 56.6% for the years ended December 31, 2001, 2000 and 1999, respectively. The increase in the expense ratios is due to the decline in premiums. The Company's insurance subsidiaries' combined ratios under GAAP were 89.6%, 75.3% and 74.2% for the years ended December 31, 2001, 2000 and 1999, respectively.

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. This is a critical accounting policy for the ACMAT construction segment.

LIQUIDITY AND CAPITAL RESOURCES:

The Company internally generates sufficient funds for its current operations and maintains a relatively high degree of liquidity in its investment portfolio. The primary sources of funds to meet the demands of claim settlements and

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operating expenses are premium collections, investment earnings and maturing investments. The Company has no material commitments for capital expenditures and, in the opinion of management, has adequate sources of liquidity to fund its operations over the next 12 months.

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

ACMAT's principal sources of funds are dividends from its wholly owned subsidiaries, intercompany and short-term borrowings, insurance underwriting fees from its subsidiaries, construction contracting operations and rental income. Management believes that these sources of funds are adequate to serve

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

The Company realized cash flow from operations in the amount of \$1,465,272 in 2001, compared to cash flow used from other sources to support operations of \$8,190,436 in 2000 and \$7,065,427 in 1999. The cash flow from operations is due primarily to the increase of cash collateral partially offset by 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 \$8,821,721 in 2001, \$14,008,674 in 2000 and \$20,580,662 in 1999.

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, 2001, 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, 2001.

During 2001, the Company purchased, in the open market and privately negotiated transactions, 234,235 shares of its Class A Stock at an average price of \$7.80.

The Company's principal source of cash for repayment of long-term debt is dividends from its two insurance companies. During 2001, ACMAT received \$6,460,000 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 2002, the amount of dividends ACMAT's insurance subsidiaries may pay, without prior approval of their domestic state insurance departments, is limited to approximately \$5,930,000.

In 2002, 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 \$2,589,256 in 2002.

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, 2001 was above the level which might require regulatory action.

CONTRACTUAL CASH OBLIGATIONS AND COMMITMENTS

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Contractual Obligations at December 31, 2001 include the following:

Payments due by Period (in thousands)	Total	Less than 1 Year	1 to 3 Years	4 to 5 Years	Aft Ye
Long-Term Debt (principal)	24,550	2,589	3,780	3,758	14,

The Company also has cash collateral of \$15,948,636 at December 31, 2001 which it would be required to return at the end of expiration of applicable bond period subject to any claims.

ITEM 7a. QUANTITATIVE AND QUALITATIVE DISCUSSIONS ABOUT MARKET RISK:

MARKET RISK

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, foreign currency exchange rates, and other relevant market rate or price changes. Market risk is directly influenced by the volatility and liquidity in the markets in which the related underlying assets are traded. The following is a discussion of

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the Company's primary market risk exposures and how those exposures are currently managed as of December 31, 2001. 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, 2001 was \$67,499,567, 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, 2000. 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

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term "near term" means a period of time going forward up to one year from the date of the consolidated financial statements. Actual results may differ from the hypothetical change in market rates assumed in this disclosure, especially since this sensitivity analysis does not reflect the results of any action that would be taken by us to mitigate such hypothetical losses in fair value.

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

For invested assets, duration modeling is used to calculate changes in fair values. Durations on invested assets are adjusted for call, put and interest rate reset features. Duration on tax exempt securities is adjusted for the fact that the yield on such securities is less sensitive to changes in interest rates compared to Treasury securities. Invested asset portfolio durations are calculated on a market value weighted basis, including accrued investment income, using holdings as of December 31, 2001.

The sensitivity analysis model used by the Company produces a loss in fair value of market sensitive instruments of \$1.9 million based on a 100 basis point increase in interest rates as of December 31, 2001, 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 62% 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.

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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, 2001, 2000 and 1999

Consolidated Balance Sheets as of December 31, 2001 and 2000

Consolidated Statements of Stockholders' Equity for the years ended December 31, 2001, 2000 and 1999

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Consolidated Statements of Cash Flows for the years ended December 31, 2001, 2000 and 1999

Notes to Consolidated Financial Statements - December 31, 2001, 2000 and 1999

Consolidated Schedules included in Part II of this Report - Years ended December 31, 2001, 2000 and 1999

- I - Condensed Financial Information of Registrant
- II - Valuation and Qualifying Accounts and Reserves
- V - Supplemental Information Concerning Property-Casualty Insurance Operations

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
ACMAT Corporation:

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ACMAT Corporation and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2001 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
March 4, 2002

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ACMAT CORPORATION AND SUBSIDIARIES

Consolidated Statements of Earnings

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Years Ended December 31, 2001, 2000 and 1999

	2001	2000	1999
	-----	-----	-----
Contract revenues	\$14,074,878	11,790,207	9,223,457
Earned premiums	7,581,276	9,215,904	9,414,192
Investment income, net	4,031,793	4,570,927	5,389,732
Net realized capital gains (losses)	374,301	(123,125)	252,190
Other income	900,559	887,842	1,220,678
	-----	-----	-----
	26,962,807	26,341,755	25,500,249
	-----	-----	-----
Cost of contract revenues	13,183,057	11,006,382	8,261,408
Losses and loss adjustment expenses	1,536,022	1,506,908	1,672,887
Amortization of policy acquisition costs	2,049,946	2,375,038	2,223,918
General and administrative expenses	4,856,785	4,997,849	5,385,409
Interest expense	2,723,052	2,982,824	3,738,740
	-----	-----	-----
	24,348,862	22,869,001	21,282,362
	-----	-----	-----
Earnings before income taxes	2,613,945	3,472,754	4,217,887
Income taxes	907,357	1,248,437	1,204,164
	-----	-----	-----
Net earnings	\$ 1,706,588	2,224,317	3,013,723
	=====	=====	=====
	-----	-----	-----
Basic earnings per share	\$.70	.80	1.02
	-----	-----	-----
Diluted earnings per share	\$.68	.78	.99
	-----	-----	-----

See Notes to Consolidated Financial Statements.

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ACMAT CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets
December 31, 2001 and 2000

ASSETS

Investments:

	2001

Fixed maturities - available for sale at fair value (Cost of \$61,841,391 in 2001 and \$70,487,764 in 2000)	\$ 62,210,923
Equity securities - available for sale at fair value (Cost of \$5,065,262 in 2001 and \$2,561,512 in 2000)	4,916,900
Mortgages	--

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Short-term investments, at cost which approximates fair value	371,744

Total Investments	67,499,567
Cash and cash equivalents	12,784,806
Accrued interest receivable	750,078
Receivables, net of allowance for doubtful accounts of \$82,355 in 2001 and \$147,346 in 2000	4,839,559
Reinsurance recoverable	2,772,668
Prepaid expenses	125,731
Deferred income taxes	450,303
Property and equipment, net	12,273,656
Deferred policy acquisition costs	1,165,556
Other assets	4,881,172
Intangibles, net	1,920,360

	\$ 109,463,456
	=====
Liabilities & Stockholders' Equity	
Accounts payable	\$ 3,480,204
Reserves for losses and loss adjustment expenses	22,585,626
Unearned premiums	4,155,197
Collateral held	15,948,636
Income taxes	13,592
Other accrued liabilities	757,665
Long-term debt	24,550,361

Total Liabilities	71,491,281
Commitments and contingencies	
Stockholders' Equity:	
Common Stock (No par value; 3,500,000 shares authorized; 557,589 and 557,589 shares issued and outstanding)	557,589
Class A Stock (No par value; 10,000,000 shares authorized; 1,827,019 and 2,057,254 shares issued and outstanding)	1,827,019
Retained earnings	35,460,226
Accumulated other comprehensive income (loss)	127,341

Total Stockholders' Equity	37,972,175

	\$ 109,463,456
	=====

See Notes to Consolidated Financial Statements.

ACMAT CORPORATION AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity
December 31, 2001, 2000 and 1999

Common Class A Additional

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	Stock par value	Stock par value	paid-in capital	Retain earnings
	-----	-----	-----	-----
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
Comprehensive income:				
Net unrealized appreciation of debt and equity securities, net of reclassification adjustment	--	--	--	
Net earnings	--	--	--	1,706
Total comprehensive income				
Acquisition and retirement of 234,235 shares of Class A Stock	--	(234,235)	(20,000)	(1,572)
Issuance of 4,000 shares of Class A Stock pursuant to stock options	--	4,000	20,000	
Balance as of December 31, 2001	\$ 557,589	1,827,019	--	35,460
	=====	=====	=====	=====

See Notes to Consolidated Financial Statements.

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ACMAT CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows
Years ended December 31, 2001, 2000 and 1999

	2001

Cash Flows From Operating Activities:	
Net earnings	\$ 1,706,588
Adjustments to reconcile net earnings to net cash provided by (used for) operating activities:	
Depreciation and amortization	1,535,057
Net realized capital (gains) losses	(374,301)
Deferred income taxes	383,562
Changes In:	
Accrued interest receivable	283,333
Receivables, net	(699,196)
Reinsurance recoverable	(192,280)
Deferred policy acquisition costs	273,191
Prepaid expenses and other assets	(1,261,646)
Accounts payable and other liabilities	651,095
Collateral held	7,275,258
Reserves for losses and loss adjustment expenses	(6,724,980)
Income taxes	(102,829)
Unearned premiums	(1,287,580)

Net cash provided by (used for) operating activities	1,465,272

Cash Flows From Investing Activities:	
Proceeds from investments sold or matured:	
Fixed maturities - sold	25,677,741
Fixed maturities - matured	28,261,000
Equity securities	3,568,173
Mortgages	289,625
Short-term investments	23,704,426
Purchases Of:	
Fixed maturities	(45,430,756)
Equity securities	(6,000,000)
Mortgages	--
Short-term investments	(20,827,105)
Capital expenditures	(421,383)

Net cash provided by investing activities	8,821,721

Cash Flows From Financing Activities:	
Borrowings under line of credit	--
Repayments under line of credit	--
Repayments on long-term debt	(8,146,226)
Issuance of long-term debt	5,000,000
Issuance of Class A Stock	24,000
Payments for acquisition and retirement of stock	(1,826,902)

Net cash used for financing activities	(4,949,128)

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Net change in cash and cash equivalents	5,337,865
Cash and cash equivalents, beginning of year	7,446,941

Cash and cash equivalents, end of year	\$ 12,784,806
	=====

See Notes to Consolidated Financial Statements.

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ACMAT CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2001, 2000 AND 1999

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Consolidation

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

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

(b) Business

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

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

The United Coastal Liability Insurance operating segment offers specific lines of liability insurance as an approved non-admitted excess and surplus lines insurer in forty-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

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miscellaneous surety such as workers' compensation bonds, supply bonds, subdivision bonds and license and permit bonds.

During 2001, 2000 and 1999, customers who individually accounted for more than 10% of consolidated construction contracting revenue are as follows; in 2001 - three customers provided 33%, 27%, and 20%, respectively. In 2000 - three customers provided 33%, 22% and 19%, respectively. In 1999 - two customers provided 51% and 24%, respectively. One customer accounted for more than 10% of the United Coastal insurance revenues in 2001.

(c) Investments

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

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

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

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

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ACMAT CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(d) Deferred Policy Acquisition Costs

Deferred policy acquisition costs, representing commissions and certain underwriting costs, are deferred and amortized on a straight-line basis over the policy term.

(e) Property and Equipment

Property and equipment are stated at 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

Prior to adoption of SFAS No. 142, "Goodwill and Other Intangible Assets",

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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. Amortization expense included in the consolidated statement of income was \$321,707, \$326,652 and \$632,339 for the years ended December 31, 2001, 2000 and 1999, respectively.

Upon adoption of SFAS No. 142, the Company will stop amortizing intangible assets related to licenses which is deemed to have an indefinite useful life. Instead, this asset will be subject to an annual review for impairment. See Note 1, Summary of Significant Accounting Policies, Accounting Standards Not Yet Adopted.

(g) Insurance Reserve Liabilities

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

Reserves for losses and loss adjustment expenses are estimates at any given point in time of what the Company may have to pay ultimately on incurred losses, including related settlement costs, based on facts and circumstances then known. The Company also reviews its claims reporting patterns, past loss experience, risk factors and current trends and considers their effect in the determination of estimates of incurred but not reported losses. Ultimate losses and loss adjustment expenses are affected by many factors which are difficult to predict, such as claim severity and frequency, inflation levels and unexpected and unfavorable judicial rulings. Reserves for surety claims also consider the amount of collateral held as well as the financial strength of the contractor and its indemnitors. Management believes that the reserves for losses and loss adjustment expenses are adequate to cover the unpaid portion of the ultimate net cost of losses and loss adjustment expenses incurred, including losses incurred but not reported.

(h) Collateral Held

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

ACMAT CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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

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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 \$600,174 and \$938,797 at December 31, 2001 and 2000, 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			
	2001	2000	1999	2001
Direct	\$ 8,350,916	10,453,335	8,968,024	\$ 9,639,764
Assumed	47,491	12,743	124,763	32,795
Ceded	(1,766,087)	(1,555,074)	(1,002,787)	(2,091,283)
Totals	\$ 6,632,320	8,911,004	8,090,000	\$ 7,581,276

Ceded incurred losses and loss adjustment expenses totaled \$423,709, \$175,397 and \$215,292 for the years ended December 31, 2001, 2000 and 1999, 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

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

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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.

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ACMAT CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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, 2001, 2000 and 1999:

	2001

Unrealized gains (losses) on investments:	
Unrealized holding gain (loss) arising during period net of income tax expense	\$ 831,863
Less reclassification adjustment for gains included in net earnings, net of income tax expense (benefit) of \$127,262, (\$41,863) and \$85,745 for 2001, 2000 and 1999, respectively	247,039

Other comprehensive income (loss)	\$ 584,824
	=====

(n) Accounting Changes

Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities", (FAS 133 was issued in June 1998 and 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 statement of financial position and measure those instruments at fair value. The cumulative effect of adopting FAS 133, as amended, on January 1, 2001 had no effect. There were no derivative transactions during 2001.

(o) Accounting Standards Not Yet Adopted

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (FAS 142). FAS 142 addresses the initial recognition and measurement of intangible assets acquired either singly or with a group of other assets, as well as the measurement of goodwill and other intangible assets subsequent to their initial acquisition. FAS 142 changes the accounting for goodwill and intangible assets that have indefinite useful

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lives from an amortization approach to an impairment-only approach that requires that those assets be tested at least annually for impairment. Intangible assets that have finite useful lives will continue to be amortized over their useful lives, but without an arbitrary ceiling on their useful lives.

Upon adoption of SFAS No. 142, on January 1, 2002 the Company is required to evaluate its existing intangible assets and goodwill that were acquired in purchase business combinations, and to make any necessary reclassifications in order to conform with the new classification criteria in SFAS No. 141 for recognition separate from goodwill. The Company will be required to reassess the useful lives and residual values of all intangible assets acquired, and make any necessary amortization period adjustments by the end of the first interim period after adoption. If an intangible asset is identified as having an indefinite useful life, the Company will be required to test the intangible asset for impairment in accordance with the provisions of SFAS No. 142. Impairment is measured as the excess of carrying value over the fair value of an intangible asset with an indefinite life. Any impairment loss will be measured as of the date of adoption and recognized as the cumulative effect of a change in accounting principle.

As of January 1, 2002, the Company has an unamortized intangible asset in the amount of \$1,920,360 which will be subject to the transition provisions of SFAS No. 142. Amortization expense related to goodwill was \$321,707 for the year ended December 31, 2001. the Company will cease amortization of goodwill, effective January 1, 2002. This would reduce general and administrative expenses and increase earnings before tax by \$152,290 in 2002. In addition, the Company has performed the transitional impairment tests using the fair value approach required by the new standard. Based on these tests, the Company did not impair any intangible asset.

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" (FAS 143). FAS 143 changes the measurement of an asset retirement obligation from a cost-accumulation approach to a fair value approach, where the fair value (discounted value) of an asset retirement obligation is recognized as a liability in the period in which it is incurred and accretion expense is recognized using the credit-adjusted risk-free interest rate in effect when the liability was initially recognized. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and subsequently amortized into expense. The pre-FAS 143 prescribed practice of reporting a retirement obligation as a contra-asset will no longer be allowed. The Company is in the process of assessing the impact that will take effect on January 1, 2003.

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In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (FAS 144). FAS 144 establishes a single accounting model for long-lived assets to be disposed of by sale. A long lived asset classified as held for sale is to be measured at the lower of its carrying amount or fair value less cost to sell and depreciation (amortization) is to cease. Impairment is recognized only if the carrying amount of a long-lived asset is not recoverable from its undiscounted cash flows and is measured as the difference between the carrying amount and fair value of the asset. Long-lived assets to be abandoned, exchanged for a similar productive asset, or distributed to owners in a spin-off are considered held and used until disposed of. Accordingly, discontinued operations are no longer to be measured on a net realizable value basis, and future operating losses are no longer recognized before they occur.

The Company is required to adopt FAS 144 effective January 1, 2002. The provisions of the new standard are generally to be applied prospectively and are

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not expected to significantly affect the Company's results of operations, financial condition or liquidity.

(p) Subsequent Event

On January 13, 2002, the Founder, Chairman, President and Chief Executive Officer of the Corporation died at the age of 82. At the time of his death, Mr. Nozko, Sr. owned of record or beneficially shares of the Corporation's Common Stock and Class A Stock having approximately 53% of the total voting power of the Corporation's voting capital stock. During the pendency of Mr. Nozko's estate, such voting power has been vested in the executors of the estate who are his son, Henry W. Nozko, Jr., the current Chairman, President and Chief Executive Officer of the Corporation, and his daughter Pamela N. Cosmas.

In connection with the passing of Henry W. Nozko, Sr., the Company incurred certain obligations to his estate and spouse that are payable only from the proceeds of several key-man life insurance policies held by the Company. ACMAT Corporation is the beneficiary of approximately \$8,900,000 from these life insurance policies.

After payment of such obligations, the Company expects that earnings for the quarter ending March 31, 2002 will reflect a one-time, net after-tax benefit of approximately \$3,100,000 attributable to the portion of such insurance proceeds which the Company will retain.

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ACMAT CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(2) INVESTMENTS

INVESTMENTS AT DECEMBER 31, 2001 AND 2000 FOLLOWS:	AMORTIZED COST	ESTIMATED FAIR VALUE
	-----	-----
2001		
Fixed maturities - available for sale:		
Bonds:		
States, municipalities and political subdivisions	\$12,182,673	12,296,763
United States government and government agencies	20,948,080	21,111,908
Mortgage-backed securities	19,658,127	19,720,478
Industrial and miscellaneous	9,052,511	9,081,774
	-----	-----
Total fixed maturities	61,841,391	62,210,923
Equity securities - common stocks:		
Banks, trusts and insurance	5,262	18,100
Equity securities - redeemable preferred stocks:		
Banks, trusts and insurance	1,560,000	1,481,000
Industrial and miscellaneous	3,500,000	3,417,800
	-----	-----
Total equity securities	5,065,262	4,916,900
Short-term investments	371,744	371,744
	-----	-----
Total investments	\$67,278,397	67,499,567
	=====	=====
2000		
Fixed maturities - available for sale:		

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Bonds:		
States, municipalities and political subdivisions	\$28,385,622	\$28,340,477
United States government and government agencies	17,215,078	17,270,789
Mortgage-backed securities	4,938,654	4,934,265
Industrial and miscellaneous	19,948,410	19,825,381
	-----	-----
Total fixed maturities	70,487,764	70,370,912
Equity securities - common stocks:		
Banks, trusts and insurance	5,262	15,926
Equity securities - redeemable preferred stocks:		
Banks, trusts and insurance	1,060,000	908,760
Industrial and miscellaneous	1,496,250	1,296,250
	-----	-----
Total equity securities	2,561,512	2,220,936
Mortgage	289,625	289,625
Short-term investments	3,249,065	3,249,065
	-----	-----
Total investments	\$76,587,966	76,130,538
	=====	=====

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, 2001, the Company's insurance subsidiaries had securities with an aggregate book value of approximately \$10.4 million on deposit with various state regulatory authorities.

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ACMAT CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The amortized cost and fair value of fixed maturities at December 31, 2001 and 2000, by effective maturity, follows:

	2001	
	Amortized Cost	Fair Value
	-----	-----
Due in one year or less	\$18,640,246	18,750,095
Due after one year through five years	30,157,413	30,545,391
Due after five years through ten years	2,966,530	2,921,982
Due after ten years	10,077,202	9,993,455
	-----	-----
Total	\$61,841,391	62,210,923
	=====	=====

The Company's portfolio is comprised primarily of fixed maturity securities

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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, 2001 and 2000 follows:

	2001	
	Gains	Losses
States, municipalities and political subdivisions	\$116,027	(1,937)
United States government and government agencies	261,299	(97,471)
Industrial and miscellaneous	32,518	(3,255)
Mortgage-backed securities	158,973	(96,622)
	-----	-----
Total	568,817	(199,285)
Equity securities	33,838	(182,200)
	-----	-----
Total	\$602,655	(381,485)
	=====	=====

(3) INVESTMENT INCOME AND REALIZED CAPITAL GAINS AND LOSSES

A summary of net investment income for the years ended December 31, 2001, 2000 and 1999 follows:

	2001	2000
	-----	-----
Tax-exempt interest	\$ 851,666	1,268,
Taxable interest	3,050,142	3,279,
Dividends on equity securities	156,067	112,
Investment expenses	(26,082)	(90,
	-----	-----
Net investment income	\$ 4,031,793	4,570,
	=====	=====

Realized capital gains (losses) for the years ended December 31, 2001, 2000 and 1999 follows:

	2001	
	-----	-----
Fixed maturities	\$302,378	(1
Equity securities	71,923	
Other	--	
	-----	-----
Net realized capital gains (losses)	\$374,301	(1
	=====	=====

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ACMAT CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Gross gains of \$314,351, \$14,162 and \$349,413 and gross losses of \$11,973, \$137,287 and \$97,223 were realized on fixed maturity sales for the years ended December 31, 2001, 2000 and 1999, respectively. Gross gains of \$71,923 were realized on the sale of equity securities and no losses were realized on equity security sales for the year ended December 31, 2001. There were no gross gains or losses realized on equity security sales for the years ended December 31, 2000 and 1999.

(4) RECEIVABLES

A summary of receivables at December 31, 2001 and 2000 follows:

	20	

Insurance premiums due from agents	\$	8
Receivables under construction contracts:		
Amounts billed		1,9
Recoverable costs in excess of billings on uncompleted contracts		8
Billings in excess of costs on uncompleted contracts		(
Retainage, due on completion of contracts		1,1

Total receivables under construction contracts		3,8
Other		1

Total receivables		4,9
Less allowances for doubtful accounts		(

Total receivables, net		\$ 4,8
		=====

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 2002.

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

Useful lives for depreciation purposes are as follows:

Equipment and vehicles	5 years
Building	40 years
Furniture and fixtures	15 years

A summary of property and equipment at December 31, 2001 and 2000 follows:

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	2001	2000
	-----	-----
Building	\$15,268,423	15,039,038
Land	800,000	800,000
Equipment and vehicles	1,279,360	1,512,260
Furniture and fixtures	843,380	840,114
	-----	-----
	18,191,163	18,191,412
Less accumulated depreciation	5,917,507	5,566,620
	-----	-----
	\$12,273,656	\$12,624,792
	=====	=====

Future minimum rental income to be generated by leasing a portion of the building under non-cancelable operating leases as of December 31, 2001 are estimated to be \$549,890 for 2002, \$428,690 for 2003 and \$53,200 for 2004. Rental income earned in 2001, 2000 and 1999 was \$593,573, \$768,496 and \$688,102, respectively.

(6) INTANGIBLES

A summary of intangibles, acquired primarily in connection with purchases of the Company's insurance subsidiaries, at December 31, 2001 and 2000 follows:

	2001	2000
	-----	-----
Insurance licenses	\$4,188,926	4,188,926
Goodwill	--	2,441,310
	-----	-----
	4,188,926	6,630,236
Less accumulated amortization	2,268,566	4,388,169
	-----	-----
	\$1,920,360	2,242,067
	=====	=====

Intangible assets are written off when they become fully amortized

ACMAT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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.

	2001	2000
	-----	-----
Balance at January 1	\$ 29,310,606	38,544,400
Less reinsurance recoverable	2,580,388	3,924,000

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Net balance at January 1	----- 26,730,218	----- 34,620,4
Incurred related to:		
Current year	4,144,000	2,441,0
Prior years	(2,607,978)	(934,0
	-----	-----
Total incurred	1,536,022	1,506,9
Payments related to:		
Current year	1,723,000	791,5
Prior years	6,730,282	8,605,5
	-----	-----
Total payments	8,453,282	9,397,1
Net balance at December 31	19,812,958	26,730,2
Plus reinsurance recoverable	2,772,668	2,580,3
	-----	-----
Balance at December 31	\$ 22,585,626	29,310,6
	=====	=====

The decrease in loss and loss adjustment expense reserves continues due to significant loss payments for surety and general liability claims, the release of net favorable development in surety loss reserves relating to older years that are no longer required partially offset by an increase in current year incurred loss and loss adjustment expenses. This increase reflects large surety losses which occurred during the year. While management continually evaluates the potential for changes in loss estimates, due to the uncertainty inherent in the surety business, the emergence of net favorable development may or may not continue to occur. Management believes that the reserves for losses and loss adjustment expense are adequate to cover the unpaid portion of the ultimate net cost of losses and loss adjustment expenses, including losses incurred but not reported.

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

(8) NOTES PAYABLE TO BANKS

At December 31, 2001, 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, 2001 and 2000. 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, 2001 and 2000 follows:

2001	2000
-----	-----

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Term Loan due 2004	\$ 2,250,000	3,250,000
Senior Notes due 2005	900,000	2,400,000
Term Loan due 2009	5,000,000	--
Mortgage Note due 2009	6,005,361	6,646,587
Convertible Note due 2022	10,395,000	15,400,000
	-----	-----
	\$24,550,361	27,696,587
	=====	=====

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ACMAT CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

On September 1, 1999, the Company obtained a \$4,500,000 term loan from a financial institution, which is payable in quarterly installments of \$250,000 which commenced December 1, 1999. The term loan, due 2004 has a balance of \$2,250,000 at December 31, 2001. 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 \$6,005,361 at December 31, 2001. The loan agreements contain certain limitations on borrowings, minimum statutory capital levels and require maintenance of certain 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 (7-1/4%). The Company voluntarily prepaid the installments due January 31 on December 31 in 2001, 2000 and 1999. 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 \$900,000 at December 31, 2001.

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

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\$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, 2001, 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 Convertible Note 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 voluntary principal payment of \$1,100,000 on July 31, 1998 and \$5,005,000 on December 31, 2001. At December 31, 2001, the Company had reserved 945,000 shares of Class A Stock for issuance pursuant to such conversion option. The unsecured debenture has a balance of \$10,395,000 at December 31, 2001.

Principal payments on long-term debt are \$2,589,256, \$1,738,716, \$2,041,724, \$1,848,536, \$1,909,425 and \$1,974,682 for the years 2002 through 2006, respectively. Interest expense paid in 2001, 2000 and 1999 amounted to \$2,804,927, \$2,815,876 and \$3,751,313, respectively.

The fair value at December 31, 2001 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, 2001 because of the complex and unique terms associated with this debt instrument.

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ACMAT CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(10) INCOME TAXES

The components of income tax expense for each year follows:

	2001	2000	1999
	-----	-----	-----
Current Taxes:			
Federal	\$ 542,635	456,978	725,246
State	75,000	65,000	50,000
	-----	-----	-----
	617,635	521,978	775,246
	-----	-----	-----
Deferred Taxes:			
Federal	289,723	726,459	428,918
	-----	-----	-----
Total	\$ 907,358	1,248,437	1,204,164
	=====	=====	=====

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

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follows:

	2001	2000	1999
	----	----	----
Federal statutory tax rate	34.0%	34.0%	34.0%
State income tax	1.9	1.2	.8
Effect of tax-exempt interest	(9.0)	(10.6)	(11.5)
Amortization of goodwill	4.2	3.4	2.8
Officers life insurance premiums	2.4	2.6	2.0
Other, net	1.2	5.3	.5
	----	----	----
Effective income tax rate	34.7%	35.9%	28.6%
	====	====	====

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2001 and 2000 are presented below:

Deferred Tax Assets:

- Reserves for losses and loss adjustment expenses,
 Principally due to reserve discounting
- Unearned premiums
- Accounts receivable, principally due to allowance for doubtful accounts
- Unrealized losses on investments
- State net operating loss carryforward
- Other

Total gross deferred tax assets

Less valuation allowance

Net deferred tax assets

Deferred Tax Liabilities:

- Plant and equipment
- Deferred policy acquisition costs
- Unrealized gains on investments

Total gross deferred tax liabilities

Net deferred tax assets

In 2001 and 2000, a valuation allowance is provided to offset the deferred tax asset related to the state net operating loss carryforward as management believes it is more likely than not that the deferred tax asset is unrealizable. Also, in 2000, a valuation allowance was provided to offset the deferred tax asset related to net unrealized losses which are a component of stockholders' equity. Due to the reversal of net unrealized losses during 2001, this valuation allowance has been eliminated. 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

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periods in which those temporary difference 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, 2001.

State net operating loss carryforwards as of December 31, 2001, 2000 and 1999 are \$17,727,650, \$15,634,692 and \$13,448,084 expiring through 2021, 2020 and 2003, respectively.

Taxes paid in 2001, 2000 and 1999 were \$626,625, \$320,405 and \$703,081, respectively.

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ACMAT CORPORATION AND SUBSIDIARIES 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 2001 and 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.

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, 2001.

(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 and 1999, ACMAT repurchased, in open market and privately negotiated transactions, 27,239 and 7,260, respectively, shares of its Common Stock at an average price of \$19.08 and \$20.93 per share, respectively. The Company also repurchased during 2001, 2000 and 1999, in open market and privately negotiated transactions 234,235, 253,833 and 189,221, respectively, shares of its Class A Stock at an average price of \$7.80, \$7.29 and \$12.52 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 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 Stock and Class A Stock. Transactions regarding these stock options are summarized below:

2001

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Options outstanding at December 31	333,500	337
Weighted average price per share of options outstanding	\$ 8.30	\$
Expiration dates		1/2
Options exercisable at December 31	333,500	267
Options granted	--	70
Options exercised or surrendered	4,000	6
Price ranges of options exercised or surrendered	\$ 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 2001 or 1999, however, the exercise price of the Class A Stock options were re-priced at \$7.25 on December 16, 1999.

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ACMAT CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 \$5,930,000 in 2002.

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 2001, United Coastal Insurance paid dividends of \$6,000,000, 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.

In accordance with statutory accounting principles, ACMAT's insurance subsidiaries' statutory capital and surplus was \$50,735,332, and \$50,646,755 at December 31, 2001 and 2000, respectively, and their statutory net income for the years ended December 31, 2001, 2000 and 1999 was \$6,048,222, \$7,641,075 and \$11,231,410, respectively. Effective January 1, 2001, the insurance subsidiaries began preparing its statutory basis financial statements in accordance with the revised manual subject to any deviation prescribed or permitted by its domiciliary insurance commissioner. The impact of this change was an increase to the statutory capital and surplus of approximately \$3.9 million. The primary differences between amounts reported in accordance with GAAP and amounts reported in accordance with statutory accounting principles are carrying value of fixed maturity investments; assets not admitted for statutory purposes such as agents balances over 90 days, furniture and fixtures and certain notes receivable; and deferred acquisition costs recognized for GAAP only.

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

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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, 2001, 2000 and 1999:

	Earnings	Average Share Outstanding
2001:	-----	-----
Basic EPS:		
Earnings available to stockholders	\$1,706,588	2,438
Effect of Dilutive Securities:		
Stock options	--	55
	-----	-----
Diluted EPS:		
Earnings available to stockholders	\$1,706,588	2,494
	=====	=====
2000:		
Basic EPS:		
Earnings available to stockholders	\$2,224,317	2,796
Effect of Dilutive Securities:		
Stock options	--	38
	-----	-----
Diluted EPS:		
Earnings available to stockholders	\$2,224,317	2,835
	=====	=====

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ACMAT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Earnings	Average Share Outstanding
1999:	-----	-----
Basic EPS:		
Earnings available to stockholders	\$3,013,723	2,961
Effect of Dilutive Securities:		
Stock options	--	80
	-----	-----
Diluted EPS:		
Earnings available to stockholders	\$3,013,723	3,042
	=====	=====

The Convertible Notes were anti-dilutive in 2001, 2000 and 1999.

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(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.

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The Company evaluates performance based on earnings before income taxes and excluding interest expense. The Company accounts for intersegment revenue and expenses as if the products/services were to third parties. Information relating to the three segments is summarized as follows:

	2001 -----	2000 -----
Revenues:		
ACSTAR Bonding	\$ 5,487,683	6,284
United Coastal Liability Insurance	6,363,392	7,080
ACMAT Contracting	17,540,369	15,898
	-----	-----
	\$ 29,391,444	29,263
	=====	=====
Operating Earnings:		
ACSTAR Bonding	\$ 2,098,548	2,436
United Coastal Liability Insurance	2,810,000	3,549
ACMAT Contracting	912,376	1,111
	-----	-----
	\$ 5,820,924	7,097
	=====	=====
Depreciation and Amortization:		
ACSTAR Bonding	\$ 578,967	535
United Coastal Liability Insurance	299,353	371
ACMAT Contracting	656,737	639
	-----	-----
	\$ 1,535,057	1,547
	=====	=====
Identifiable Assets:		
ACSTAR Bonding	\$ 48,282,555	41,801
United Coastal Liability Insurance	42,801,086	52,781
ACMAT Contracting	18,379,815	17,633
	-----	-----
	\$109,463,456	112,216
	=====	=====
Capital Expenditures:		
ACSTAR Bonding	\$ 55,596	298
United Coastal Liability Insurance	105,678	92
ACMAT Contracting	260,109	159
	-----	-----
	\$ 421,383	549
	=====	=====

The components of revenue for each segment are as follows:

	2001 -----	2000 -----
ACSTAR Bonding:		
Premiums	\$ 3,808,737	5
Investment income, net	1,560,080	1
Capital gains (losses)	191,670	

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Other	(72,804)	
	-----	----
	\$ 5,487,683	6
	=====	=====
United Coastal Liability Insurance:		
Premiums	\$ 3,772,539	4
Investment income, net	2,385,377	3
Capital gains (losses)	182,631	
Other	22,845	
	-----	----
	\$ 6,363,392	7
	=====	=====
ACMAT Contracting:		
Contract revenues	\$ 14,074,878	11
Investment income, net	44,707	
Inter-segment revenue:		
Rental income	1,277,794	1
Underwriting services and agency commissions	1,192,472	1
Other	950,518	1
	-----	----
	\$ 17,540,369	15
	=====	=====

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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:

Revenue:	2001	
	-----	----
Total revenue for reportable segments	\$ 29,391,444	
Inter-segment eliminations	(2,428,637)	
	-----	----
	\$ 26,962,807	
	=====	=====
Operating Earnings:		
Total operating earnings for reportable segments	\$ 5,820,924	
Interest expense	(2,723,052)	
Intersegment interest expense	(128,188)	
Other operating expenses	(355,739)	
	-----	----
	\$ 2,613,945	
	=====	=====

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

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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 2001 and 2000 follows:

	MARCH 31 -----	JUNE 30 -----	SEPT ---
2001			
Operating Revenues	\$5,976,915	7,195,080	7,
Operating Earnings	\$1,458,592	1,477,871	1,
Net Earnings	\$ 518,899	502,964	
Basic Earnings Per Share	\$.21	.21	
Diluted Earnings Per Share	\$.20	.20	
2000			
Operating Revenues	\$6,081,307	6,775,713	7,
Operating Earnings	\$1,619,190	1,520,220	1,
Net Earnings	\$ 610,307	562,609	
Basic Earnings Per Share	\$.21	.20	
Diluted Earnings Per Share	\$.21	.19	

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.

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Schedule I

ACMAT CORPORATION AND SUBSIDIARIES

Condensed Financial Information of Registrant

As of December 31, 2001 and 2000 and for the

years ended December 31, 2001, 2000 and 1999

The following presents the condensed financial position of ACMAT Corporation (parent company only) as of December 31, 2001 and 2000 and its condensed statements of earnings and cash flows for the years ended December 31, 2001, 2000 and 1999.

BALANCE SHEETS

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Assets	2001	2000
	-----	-----
Current assets:		
Cash	\$ 434,640	\$ 1,058,211
Receivables	4,053,259	2,751,297
Other current assets	677,108	493,003
	-----	-----
Total current assets	5,165,007	4,302,511
Property and equipment, net	11,770,910	11,998,123
Investments in and advance from subsidiaries	47,521,294	50,630,763
Intangibles	54,810	214,912
Other assets	2,261,974	1,836,562
	-----	-----
	\$66,773,995	\$68,982,871
	=====	=====
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term debt	\$ 2,589,256	3,143,108
Other current liabilities	4,251,459	3,802,619
	-----	-----
Total current liabilities	6,840,715	6,945,727
Long-term debt	21,961,105	24,553,479
	-----	-----
Total liabilities	28,801,820	31,499,206
Commitments and contingencies		
Stockholders' equity	37,972,175	37,483,665
	-----	-----
	\$66,773,995	\$68,982,871
	=====	=====

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

	2001	
	-----	-----
Contract revenues	\$ 14,074,878	\$ 11,000,000
Cost of contract revenues	13,183,057	11,000,000
	-----	-----

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Gross profit	891,821	
Selling, general and administrative expenses	3,674,476	4
Operating loss	(2,782,655)	(3)
Interest expense	(2,851,240)	(3)
Interest income	44,707	
Underwriting fees	836,694	1
Other income	2,228,312	2
Loss before income taxes and equity in net earnings of subsidiaries	(2,524,182)	(2)
Income tax benefit	(695,000)	
Loss before equity in net earnings of subsidiaries	(1,829,182)	(2)
Equity in net earnings of subsidiaries	3,535,770	4
Net earnings	\$ 1,706,588	\$ 2

See Notes to Condensed Financial Statements.

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Schedule I, Continued

ACMAT CORPORATION AND SUBSIDIARIES

Condensed Financial Information of Registrant, Continued

STATEMENTS OF CASH FLOWS

Cash flows from operating activities:	2001	2
Net earnings	\$ 1,706,588	2,2
Depreciation and amortization	656,737	6
Equity in undistributed earnings of subsidiaries	(3,535,770)	(4,3
(Increase) decrease in accounts receivable	(1,301,962)	(1,2
(Increase) decrease in other assets	(528,767)	(5
Increase (decrease) in other liabilities	448,840	6
Net cash used for operating activities	(2,554,334)	(2,6
Cash flows from investing activities:		
Capital expenditures	(260,109)	(1
Decrease in investment in subsidiaries	7,140,000	6,9

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	-----	-----
Net cash provided by investing activities	6,879,891	6,7
	-----	-----
Cash flows from financing activities:		
Borrowings under lines of credit	--	
Repayments of lines of credit	--	
Repayment of long-term debt	(8,146,226)	(3,0
Issuance of long-term debt	5,000,000	
Issuance of Class A stock, net of taxes	24,000	
Payments for acquisition and retirement of stock	(1,826,902)	(2,3
	-----	-----
Net cash used for financing activities	(4,949,128)	(5,4
	-----	-----
Net change in cash	(623,571)	(1,3
Cash, beginning of year	1,058,211	2,4
	-----	-----
Cash, end of year	\$ 434,640	1,0
	=====	=====

See Notes to Condensed Financial Statements.

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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 2001 Annual Report.

(1) SUPPLEMENTAL CASH FLOW INFORMATION

Income taxes received from subsidiaries during the years ended December 31, 2001, 2000 and 1999 were \$516,173, \$118,150, and \$1,157,813, respectively. Interest paid during the years ended December 31, 2001, 2000 and 1999 was \$2,933,115, \$3,023,070 and \$3,751,313, respectively. Interest paid in 2001 and 2000 included \$128,188 and \$207,194, respectively, paid to subsidiaries for intercompany loans.

(2) LONG-TERM DEBT

A summary of long-term debt at December 31, 2001 and 2000 follows:

	2001	2000
	-----	-----
Term Loan Due 2004	\$ 2,250,000	3,250,000

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Senior Notes Due 2005	900,000	2,400,000
Term Loan Due 2009	5,000,000	--
Mortgage Note Due 2008	6,005,361	6,646,587
Convertible Note Due 2022	10,395,000	15,400,000
	-----	-----
	\$24,550,361	27,696,587
	=====	=====

See Note 9 to the Consolidated Financial Statements in the Annual Report for a description of the long-term debt and aggregate maturities for 2002 to 2006 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.

ACMAT CORPORATION AND SUBSIDIARIES

Valuation and Qualifying Accounts and Reserves

Years ended December 31, 2001, 2000 and 1999

Description	Balance at beginning of period -----	Additions charged to costs and expenses -----	Deductions (a) -----	Balance At end of period -----
Allowance for doubtful accounts:				
2001	\$147,346 =====	(69,312) =====	(4,321) =====	\$ 82,355 =====
2000	\$195,118 =====	(21,702) =====	26,070 =====	\$147,346 =====
1999	\$257,617 =====	180,000 =====	242,499 =====	\$195,118 =====

(a) Deductions represent accounts written off.

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ACMAT CORPORATION AND SUBSIDIARIES

Supplemental Information concerning property-casualty insurance operations

As of and for the years ended December 31, 2001, 2000 and 1999

Affiliation with Registrant -----	Deferred Policy Acquisition Costs -----	Reserves for Unpaid Losses and Loss Adjustment Expenses -----	Discount Ded. from Unpaid Losses and Loss Adjustment Expenses -----	Unearned Premiums -----	Earned Premiums -----	N Inve In -----
United Coastal Liability Insurance:						
2001	\$531,015 =====	16,463,542 =====	- =====	2,368,912 =====	3,772,539 =====	2, ==
2000	\$700,835 =====	21,367,394 =====	- =====	3,061,557 =====	4,183,439 =====	3, ==
1999	\$692,351 =====	27,889,335 =====	- =====	3,290,024 =====	4,743,791 =====	3, ==
ACSTAR Bonding:						
2001	\$634,541 =====	9,309,961 =====	- =====	1,906,026 =====	3,808,737 =====	1, ==
2000	\$737,912 =====	7,943,212 =====	- =====	2,831,843 =====	5,032,465 =====	1, ==
1999	\$631,429 =====	12,571,156 =====	- =====	2,193,118 =====	4,770,401 =====	1, ==

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 -----	Premiums Written -----
--	---	--	--	---	------------------------------

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United Coastal
Liability
Insurance:

2001	1,024,000 =====	107,762 =====	1,286,409 =====	5,665,869 =====	3,133,460 =====
2000	1,070,000 =====	185,032 =====	1,303,916 =====	7,252,037 =====	3,887,000 =====
1999	1,660,000 =====	(225,633) =====	1,528,179 =====	5,315,006 =====	3,544,657 =====

ACSTAR
Bonding:

2001	1,397,000 =====	(992,740) =====	1,601,377 =====	2,787,413 =====	3,498,860 =====
2000	1,371,000 =====	(1,119,124) =====	2,001,561 =====	2,145,080 =====	5,024,005 =====
1999	1,431,120 =====	(1,192,600) =====	1,543,783 =====	2,669,290 =====	4,645,343 =====

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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 DURING LAST FIVE YEARS, IN
HENRY W. NOZKO, JR. (1)	55	1971	President, Chief Executive Officer, Director and Chairman of the Board of United Coastal Insurance Company, Treasurer of ACSTAR Holdings, Inc.

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			Insurance Company. Member, Board of Directors, United Coastal Insurance Company Inc., ACSTAR Insurance Company.
VICTORIA C. NOZKO (1)	83	1982	Housewife during past five years
JOHN C. CREASY	82	1987	Retired Chief Executive Officer Member, Board of United Coastal Member of the Compensation Committee.
ARTHUR R. MOORE	68	1999	Former General President of Shee International Association. Member Committee.
ALFRED T. ZLOTOPOLSKI	55	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) Mrs. Victoria C. Nozko is the mother of Mr. Henry W. Nozko, Jr.

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Executive Officers of the Registrant:

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

NAME	AGE	OFFICES HELD
----	---	-----
Henry W. Nozko, Jr.	55	President, Chief Executive Officer, Treasurer, Director and Chairman of the Board since January 2002. Executive Vice President since 1982. Treasurer since 1973. Director since 1971, and Chief Operating Officer since 1985.
Robert H. Frazer	55	Vice President since 1982. Secretary since 1992. General Counsel since 1977.
Michael P. Cifone	43	Senior Vice President and Chief Financial Officer since March 2002. Vice President-Finance since 1990. Corporate Controller since 1989.

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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)		ALL OTHER COMPENSATION (B)
		SALARY	BONUS	
Henry W. Nozko, Sr Chairman, President And Chief Executive Officer	2001	\$466,833	\$ --	\$ 8,633
	2000	\$460,700	\$200,000	\$ 10,432
	1999	\$447,200	\$395,000	\$ 10,532
Henry W. Nozko, Jr Executive Vice President and Chief Operating Officer	2001	\$337,833	\$ --	\$ 8,633
	2000	\$332,000	\$150,000	\$ 10,432
	1999	\$322,500	\$315,000	\$ 10,430
Michael P. Cifone Vice President-Finance	2001	\$160,333	\$ --	\$ 8,633
	2000	\$154,500	\$100,000	\$ 10,432
	1999	\$150,000	\$155,000	\$ 10,289
Robert H. Frazer, Esq Vice President, Secretary and General Counsel	2001	\$115,185	\$ --	\$ 4,987
	2000	\$136,069	\$ --	\$ 6,648
	1999	\$171,600	\$ 25,000	\$ 10,392

(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. Individual discretionary bonuses are paid to various officers and employees.

(B) The amounts shown in this column represent contributions made by the Company to the Company's 401(k) Plan and Thrift, Profit Sharing and Retirement Plan ("Plan"). The Plan was terminated on February 29, 2000. On January 1, 2000, the Company adopted the ACMAT 401(k) Plan for all nonunion employees. 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 2001 by the named Executive Officers and the value of their unexercised options at December 31, 2001.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR END 2001 OPTION VALUES

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Name	Number of Unexercised Options at 12/31/01 (1)		Value of Unexercised In-the-Money at 12/31/01
	Exercisable/Unexercisable		Exercisable/Unexercisable
Estate of Henry W. Nozko, Sr.			
- ACMAT Class A Stock Options		56,000/-	-/-
- ACMAT Common Stock Options		50,000/-	\$412,500/-
Henry W. Nozko, Jr.			
- ACMAT Class A Stock Options		51,000/-	-/-
- ACMAT Common Stock Options		50,000/-	\$412,500/-
Robert H. Frazer			
- ACMAT Class A Stock Options		35,000/-	-/-
Michael P. Cifone			
- ACMAT Class A Stock Options		20,000/-	-/-

(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 1, 2002, no person was known to the Company to be the beneficial owner of more than five percent of its outstanding shares of Common Stock or Class A Stock except as set forth in the following table which also shows, as of that date, the total number of shares of each class of stock of the Company beneficially owned, and the percent of the outstanding class of stock so owned, by each director, and by all directors and officers of the Company, as a group:

BENEFICIAL OWNER	CLASS OF STOCK	NUMBER OF SHARES BENEFICIALLY OWNED (1)	PERCENTAGE OF CLASS OUTSTANDING
Estate of Henry W. Nozko, Sr.	Common	417,605 (4)	67%
	Class A	61,000 (3)	3%
Henry W. Nozko, Jr.	Common	198,099 (2) (4)	32%
	Class A	163,674 (2) (5)	8%
Victoria C. Nozko	Class A	52,000 (6)	2%
John C. Creasy	Class A	19,000 (7)	1%
Arthur R. Moore	Class A	10,000 (8)	
Alfred T. Zlotopolski	Class A	10,000 (8)	
Sheet Metal Workers'			

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National Pension Fund	Class A	945,000 (9)	34
Franklin Resources, Inc.	Class A	443,500 (10)	22
Queensway Financial Holdings Limited	Class A	204,814 (11)	11
EQSF Advisors, Inc.	Class A	200,678 (12)	10
First Manhattan Co.	Class A	165,513 (13)	9
Old Kent Financial Corp.	Class A	130,000 (14)	6
All Directors and Officers (8 persons)			
As a Group	Common	605,704	92
	Class A	375,090	18

- (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 51,000 shares of Class A Stock.
- (6) Includes options to purchase 25,000 shares of Class A Stock.
- (7) Includes options to purchase 19,000 shares of Class A Stock.
- (8) Includes option to purchase 10,000 shares of Class A Stock.
- (9) Assumes the full conversion of \$10,395,000 principal amount of 11.5% Convertible Note into 945,000 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.

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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 \$10,395,000 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%.

The estate of 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

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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 \$394,000 in reinsurance premiums in the year ended December 31, 2001.

Other Relationships

During the year ended December 31, 2001, the Company paid to Dr. Arthur Cosmas \$156,075 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 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, 2001, 2000 and 1999
Consolidated Balance Sheets as of December 31, 2001 and 2000
Consolidated Statements of Stockholders' Equity for the years
ended December 31, 2001, 2000 and 1999
Consolidated Statements of Cash Flows for the years ended
December 31, 2001, 2000 and 1999
Notes to Consolidated Financial Statements - December 31,
2001, 2000 and 1999

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2. Financial Statement Schedules

Consolidated Schedules included in Part II of this
Report-Years ended December 31, 2001, 2000 and 1999:

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.

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(b) Reports on Form 8-K

The Company did not file a report on Form 8-K during the fourth quarter of 2001.

(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) Amended and Restated Commercial Credit Agreement between ACMAT Corporation and Webster Bank is attached hereto as Exhibit 4(d).
- (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.
- (4g) Term Note II between ACMAT Corporation and Webster Bank is attached hereto as Exhibit 4(g).
- (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.

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SIGNATURES

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

ACMAT CORPORATION

Dated: March 29, 2002

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

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

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

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

INDEX TO EXHIBITS

Regulation S-K Exhibit -----	Page Number -----	
Exhibit 3	- Bylaws	Incorporated by R
Exhibit 3a	- Certificate of Incorporation as amended May 1, 1991	Incorporated by R
Exhibit 4b	- Promissory Note between ACMAT and Webster Bank	Incorporated by R
Exhibit 4c	- Open-end Mortgage Deed/Security Agreement between ACMAT and	

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	Webster Bank.	Incorporated by R
Exhibit 4d	- Amended and Restated Commercial Credit Agreement between ACMAT and Webster Bank	Page 58
Exhibit 4e	- Revolving Credit Note between ACMAT and Webster Bank	Incorporated by R
Exhibit 4f	- Term Note between ACMAT and Webster Bank	Incorporated by R
Exhibit 4g	- Term Note II between ACMAT and Webster Bank	Page 98
Exhibit 10b	- Stock Purchase and Note Agreement between ACMAT Corporation and The Sheet Metal Workers' National Pension Fund	Incorporated by R
Exhibit 21	- Subsidiaries of ACMAT	Page 104