ACMAT CORP
Form 10-Q
November 14, 2002

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

[x] QUARTERLY REPORT PURSUANT TO SECTION 13 OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended September 30, 2002

OR

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

For the transition period from _____ to____

Commission file number 0-6234

ACMAT CORPORATION

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

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

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

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

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

Yes [X] No [ ]

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

Title of Class	Shares outstanding at October 31, 2002
Common Stock	553,355
Class A Stock	1,756,404

TABLE OF CONTENTS

	PAGE
Part I FINANCIAL INFORMATION	
Item 1. Unaudited Financial Statements	
Consolidated Balance Sheets	3
Consolidated Statements of Earnings	4
Consolidated Statements of Stockholders' Equity	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7
Item 2. Management's Discussion and Analysis of Financial Conditions and Results of Operations	13
Part II OTHER INFORMATION	
Item 4. Controls and Procedures	
Item 6. Exhibits and Reports on Form 8-K	18
Signatures	19

2

Part I Financial Information
Item I Financial Statements

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets

Assets	Septembe 2002 (Unaudit
Investments:	
Fixed maturities-available for sale at fair value (Cost of $61,143,437 in 2002 and $61,841,391 in 2001)	$ 62,268
Equity securities, at fair value (Cost of $5,125,262 in 2002 and $5,065,262 in 2001)	5,136
Short-term investments, at cost which approximates fair value	4,590
Total investments	71,995
Cash and cash equivalents	14,900
Accrued interest receivable	598
Receivables, net	5,295
Reinsurance recoverable	8,981
Prepaid expenses	340
Income tax receivable	2,163
Deferred income taxes	85
Property & equipment, net	11,850
Deferred policy acquisition costs	1,257
Other assets	3,127
Intangibles, net	1,920
	$122,517

Liabilities & Stockholders' Equity	
Accounts payable	3,870
Reserves for losses and loss adjustment expenses	26,723
Unearned premiums	4,961
Collateral held	21,997
Income taxes	
Accrued liabilities	1,998
Long-term debt	22,137
Total liabilities	81,688
Commitments and contingencies	
Stockholders' Equity:	
Common Stock (No par value; 3,500,000 shares authorized; 553,355 and 557,589 shares issued and outstanding)	553
Class A Stock (No par value; 10,000,000 shares authorized; 1,825,019 and 1,827,019 shares issued and outstanding)	1,825
Retained earnings	37,759
Accumulated other comprehensive income (loss)	690
Total stockholders' equity	40,828
	$122,517

See Notes to Consolidated Financial Statements.

3

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Earnings (Unaudited)

	Three months ended, September 30,		Nine Se
	2002	2001	2002
Earned premiums	$ 2,120,792	1,802,479	5,718,66
Contract revenues	3,642,953	4,290,636	15,444,55
Investment income, net	913,065	958,074	2,710,69
Net realized capital gains	13,572	33,027	30,53
Life insurance proceeds, net	--	--	3,348,90
Other income	170,761	205,915	539,11
	6,861,143	7,290,131	27,792,46
Losses and loss adjustment expenses	509,595	404,576	3,587,81
Amortization of policy acquisition costs	508,854	482,678	1,357,67
Cost of contract revenues	3,921,885	4,022,606	16,533,79
General and administrative expenses	1,187,575	1,125,732	3,882,25
Interest expense	474,411	693,965	1,517,49

	6,602,320	6,729,557	26,879,03
Earnings before income taxes	258,823	560,574	913,43
Income taxes	(609,773)	141,944	(1,498,63
Net earnings	$ 868,596	418,630	2,412,06
Basic earnings per share	$ .37	.17	1.0
Diluted earnings per share	$ .36	.17	.9

See Notes to Consolidated Financial Statements.

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity (Unaudited)
September 30, 2001 and 2002

	Common stock par Value	Class A stock par value	Additional Paid-in Capital	Retained earnings	Ac Com Inc
Balance as of December 31, 2000	$ 557,589	2,057,254	--	35,326,305	
Comprehensive income:					
Net unrealized losses on debt and equity securities	--	--	--	--	
Net earnings	--	--	--	1,440,493	
Total comprehensive income					
Acquisition and retirement of 214,235 shares of Class A Stock	--	(214,235)		(1,467,615)	
Balance as of September 30, 2001	$ 557,589	1,843,019	--	35,299,183	
Balance as of December 31, 2001	$ 557,589	1,827,019	--	35,460,226	
Comprehensive income:					
Net unrealized gains on debt and equity securities	--	--	--	--	
Net earnings	--	--	--	2,412,068	
Total comprehensive income					
Acquisition and retirement of 4,234 shares of Common Stock	(4,234)	--	--	(76,255)	
Acquisition and retirement of 9,500					

shares of Class A Stock	--	(9,500)	--	(83,390)	
Exercise of 7,500 shares of Class A					
Stock pursuant to Stock Options	--	7,500	--	46,875	
Balance as of September 30, 2002	$ 553,355	1,825,019	--	37,759,524	

See Notes to Consolidated Financial Statements.

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Unaudited)
Nine Months Ended September 30, 2002 and 2001

	2002	2001
Cash flows from operating activities:		
Net earnings	$ 2,412,068	1,440,
Adjustments to reconcile net earnings to net cash (used for) provided by operating activities:		
Depreciation and amortization	809,176	1,246,
Net realized capital gains	(30,534)	(297,
Changes in:		
Accrued interest receivable	151,432	276,
Reinsurance recoverable	(6,208,789)	395,
Receivables, net	(455,985)	(1,584,
Deferred policy acquisition costs	(91,792)	(14,
Prepaid expenses and other assets	1,538,840	52,
Accounts payable and accrued liabilities	1,630,486	116,
Reserves for losses and loss adjustment expenses	4,137,961	(4,496,
Collateral held	6,049,241	3,260,
Income taxes, net	(2,074,965)	244,
Unearned premiums	806,104	(110,
Net cash provided by (used for) operating activities	8,673,243	530,
Cash flows from investing activities:		
Proceeds from investments sold or matured:		
Fixed maturities-sold	10,248,955	23,622,
Fixed maturities-matured	11,565,000	17,920,
Equity securities	2,145,444	2,536,
Mortgages	--	289,
Short-term investments	5,877,390	13,855,
Purchases of:		
Fixed maturities	(21,301,637)	(30,545,
Equity securities	(2,275,000)	(6,000,
Short-term investments	(10,096,095)	(18,364,
Capital expenditures	(190,093)	(255,
Net cash provided by (used for) investing activities	(4,026,036)	3,059,

Cash flows from financing activities:		
Payments on long-term debt	(2,412,975)	(1,227,
Issuance of Class A Stock	54,375	
Payments for acquisition & retirement of stock	(173,379)	(1,681,
Net cash used for financing activities	(2,531,979)	(2,909,
Net change in cash	2,115,228	680,
Cash at beginning of period	12,784,806	7,446,
Cash at end of period	$ 14,900,034	8,127,

See Notes to Consolidated Financial Statements.

ACMAT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS:

(1) Financial Statements

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

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

These statements should be read in conjunction with the financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2001.

(2) Earnings Per Share

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share ("EPS") computations for the three-month periods ended September 30, 2002 and 2001.

	Earnings	Average Shares Outstanding	Per-Share Amount
2002:			
Basic EPS:			
Earnings available to stockholders	$ 868,596	2,378,373	$.37

	Earnings	Average Shares Outstanding	Per-Share Amount
Effect of Dilutive Securities:			
Stock options	--	35,878	
Diluted EPS:			
Earnings available to stockholders	$ 868,596	2,414,251	$.36
2001:			
Basic EPS:			
Earnings available to stockholders	$ 418,630	2,400,607	$.17
Effect of Dilutive Securities:			
Stock options	--	63,434	
Diluted EPS:			
Earnings available to stockholders	$ 418,630	2,464,041	$.17

7

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share ("EPS") computations for the nine-month periods ended September 30, 2002 and 2001.

	Earnings	Average Shares Outstanding	Per-Share Amount
2002:			
Basic EPS:			
Earnings available to stockholders	$2,412,068	2,379,803	$1.01
Effect of Dilutive Securities:			
Stock options	--	55,008	
Diluted EPS:			
Earnings available to stockholders	$2,412,068	2,434,811	$ .99
2001:			
Basic EPS:			
Earnings available to stockholders	$1,440,493	2,453,592	$.59
Effect of Dilutive Securities:			
Stock options	--	59,962	
Diluted EPS:			
Earnings available to stockholders	$1,440,493	2,513,554	$.57

(3) Supplemental Cash Flow Information

Income taxes paid during the nine months ended September 30, 2002 and 2001 was $576,331 and $468,382, respectively. Interest paid for the nine months ended September 30, 2002 and 2001 was $1,277,723 and $1,762,747, respectively.

(4) Comprehensive Income

The following table summarizes reclassification adjustments for other comprehensive income and the related tax affects for the nine months ended September 30, 2002 and 2001:

	2002
Unrealized gains on investments:	
Unrealized holding gain arising during period	$ 583,6
Less reclassification adjustment for gains included in net income, net of income tax expense of $10,382 and $101,232 and for 2002 and 2001, respectively	20,1
Other comprehensive income	$ 563,4

(5) Accounting Changes

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 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 evaluated its existing intangible asset that was acquired in a purchase business combination, to make any necessary reclassifications in order to conform with the new classification criteria in SFAS No. 141 for recognition separate from goodwill. The Company reassessed the useful lives and residual values of all intangible assets acquired. If an intangible asset is identified as having an indefinite useful life, the Company 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 had an unamortized asset in the amount of $1,920,360 which was subject to the transition provisions of SFAS No. 142. The Company stopped amortizing intangibles on January 1, 2002. Net earnings and earnings per share adjusted to exclude intangible amortization for the three and nine-month periods ended September 30, 2001 are as follows:

	Three months ended September 30, 2001	Nine months ended September 30, 2001
Net Earnings	$ 418,630	$ 1,440,493
Intangible Amortization	38,073	114,219

Adjusted Net Earnings	456,703	1,554,712
Basic earnings per share:		
Reported earnings per share	$ .17	$ .59
Intangible amortization	.02	.04
Adjusted earnings per share	$ .19	.63
Diluted earnings per share:		
Reported earnings per share	$ .17	$ .57
Intangible amortization	.02	.05
Adjusted earnings per share	$ .19	.62

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.

(6) Accounting Standards Not Yet Adopted

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.

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

9

(7) Life Insurance Proceeds, net

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

Executive Officer of the Corporation, and his daughter Pamela N. Cosmas.

The Company was the owner and beneficiary of several key-man life insurance policies totaling approximately $11.9 million. After consideration of the cash-surrender value of the policies, the Company reported a gross gain of approximately $8.8 million during the first quarter of 2002. In connection with the passing of Henry W. Nozko, Sr., the Company incurred certain obligations, previously approved by the Board of Directors, totaling approximately $5.5 million. These obligations for consulting fees, widow's compensation and unused vacation pay were due only to the extent that sufficient proceeds existed from the life insurance policies at the time of Mr. Nozko's death.

(8) Segment Reporting

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

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

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

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

10

The Company evaluates performance based on earnings before income taxes and excluding interest expense. The Company accounts for intersegment revenue and expenses as if the products/services were to third parties. Information relating to the three segments for the three and nine-month periods ended September 30, 2002 and 2001 is summarized as follows:

	Three Months ended		Nine Months end	
	2002	2001	2002	
Revenues:				
ACSTAR Bonding	$ 1,474,778	1,244,332	$ 4,153,161	4

United Coastal Liability Insurance	1,325,337	1,421,332	3,902,317	4
ACMAT Contracting	4,659,808	5,160,712	18,146,756	13
	$ 7,459,923	7,826,376	$ 26,202,234	22
Operating Earnings (Loss):				
ACSTAR Bonding	408,005	408,653	$ 769,363	1
United Coastal Liability Insurance	517,111	624,304	13,308	2
ACMAT Contracting	(191,882)	263,457	(1,700,648)	
	$ 733,234	1,296,414	$ (917,977)	4
Depreciation and Amortization:				
ACSTAR Bonding	$ 86,001	155,749	$ 284,422	
United Coastal Liability Insurance	48,897	73,165	149,312	
ACMAT Contracting	142,079	193,651	375,442	
	$ 276,977	422,565	$ 809,176	1

Identifiable Assets:	September 30, 2002	December 31, 2001
ACSTAR Bonding	$ 55,054,337	48,282,555
United Coastal Liability Insurance	48,760,886	42,801,086
ACMAT Contracting	18,736,988	18,379,815
	$122,517,211	109,463,456

The components of revenue for each segment for the three and nine-month periods ended September 30, 2002 and 2001 are as follows:

	Three Months Ended		Nine Months En	
	2002	2001	2002	
ACSTAR Bonding:				
Premiums	$ 1,266,436	918,374	$ 3,277,830	
Investment income, net	406,039	397,567	1,074,423	
Capital gains	14,984	16,239	14,747	
Other income (expense)	(212,681)	(87,848)	(213,839)	
	$ 1,474,778	1,244,332	$ 4,153,161	
United Coastal Liability Insurance:				
Premiums	$ 854,356	884,105	$ 2,440,839	
Investment income, net	460,747	510,546	1,426,811	
Capital gains/(losses)	(1,412)	16,788	15,787	

Other income	11,646	9,893	18,880	
	$ 1,325,337	1,421,332	$ 3,902,317	
ACMAT Contracting:				
Contract revenues	$ 3,642,953	4,290,636	$ 15,444,552	1
Investment income, net	3,019	7,081	86,684	
Intersegment revenue:				
Rental income	305,342	305,340	980,661	
Underwriting services, agency commissions and funds administration services	336,698	273,785	900,782	
Other income	371,796	283,870	734,077	
	$ 4,659,808	5,160,712	$ 18,146,756	1

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

	Three Months Ended		Nine Mont
	2002	2001	2002
Revenue:			
Total revenue for reportable segments	$ 7,459,923	7,826,376	$ 26,202,234
Life insurance proceeds, net	--	--	3,348,903
Intersegment eliminations	(598,780)	(536,245)	(1,758,669)
	$ 6,861,143	7,290,131	$ 27,792,468
Operating Earnings:			
Total operating earnings (loss) for reportable segments	$ 733,234	1,296,414	$ (917,977)
Interest expense	(474,411)	(693,965)	(1,517,493)
Life insurance proceeds, net	--	--	3,348,903
Other operating expenses	--	(41,875)	--
	$ 258,823	560,574	$ 913,433

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

ACMAT CORPORATION

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

CONSOLIDATED RESULTS OF OPERATIONS:

Net earnings were $868,596 for the three months ended September 30, 2002 compared to $418,630 for the same period a year ago. Net earnings for the nine months ended September 30, 2002 were $2,412,068 compared to $1,440,493 for the nine months ended September 30, 2001. The increase in net earnings reflects the net affect of life insurance proceeds, net of the related obligations, due to the death of the Chairman and President of the Company and the related tax benefits offset by an increase to loss reserves due to adverse development in prior years, additional remediation expenses incurred on a construction project that significantly exceeded the original estimate and lower capital gains.

Revenues were $6,861,143 for the three months ended September 30, 2002 compared to $7,290,131 for the same period in 2001. Revenues were $27,792,468 for the nine months ended September 30, 2002 compared to $20,462,126 for the same period in 2001. Earned premiums were $2,120,792 for the three months ended September 30, 2002 compared to $1,802,479 for the same period a year ago. Earned premiums were $5,718,669 for the nine months ended September 30, 2002 compared to $5,743,466 for the same period in 2001. Contract revenues were $3,642,953 for the three months ended September 30, 2002 compared to $4,290,636 for the same period a year ago. Contract revenues were $15,444,552 for the nine months ended September 30, 2002 compared to $10,729,787 for the nine months ended September 30, 2001. The 2002 increase in contract revenue reflects an increase in contract revenue compared to 2001 due to timing of three large projects in 2002.

Investment income was $913,065 for the three months ended September 30, 2002 compared to $958,074 for the same period in 2001. Investment income was $2,710,692 for the nine months ended September 30, 2002 compared to $3,113,192 for the same period in 2001. The decrease in investment income was primarily related to a decrease in the yield on invested assets offset in part by an increase in invested assets. Net realized capital gains for the three months ended September 30, 2002 were $13,572 compared to realized capital gains of $33,027 for the same period a year ago. Net realized capital gains were $30,534 for the nine months ended September 30, 2002 compared to net realized capital gain of $297,742 for the same period a year ago.

Life insurance proceeds reflect the net proceeds of several key-man life insurance policies totaling approximately $8,800,000. In addition, the Company incurred certain obligations, previously approved by the Board of Directors, totaling approximately $5,500,000. These obligations for consulting fees, widow's compensation and unused vacation pay were due only to the extent that sufficient proceeds existed from the life insurance policies at the time of Mr. Nozko's death.

Other income was $170,761 for the three months ended September 30, 2002 compared to $205,915 for the same period in 2001. Other income was $539,118 for the nine months ended September 30, 2002 compared to $577,939 for the nine months ended September 30, 2001. Other income consists primarily of rental income.

Losses and loss adjustment expenses were $509,595 for the three months ended September 30, 2002 compared to $404,576 for the same period a year ago. Losses and loss adjustment expenses were $3,587,818 for the nine months ended September 30, 2002 compared to $1,175,612 for the same period a year ago. The increase in losses and loss adjustment expenses in 2002 is attributable to the strengthening of loss reserves due to adverse development in prior years. During the nine-month period ended September 30, 2002, the Company increased reserves by a net amount of $2,220,000. Amortization of policy acquisition costs were $508,854 for the three months ended September 30, 2002 compared to $482,678 for the same period in 2001. Amortization of policy acquisition costs were $1,357,673 for the nine months ended September 30, 2002 compared to $1,458,679 for the nine months ended September 30, 2001. Amortization of policy acquisition costs reflects decreased commissions paid to agents and brokers.

Costs of contract revenues were $3,921,885 for the three months ended September 30, 2002 compared to $4,022,606 for the same period a year ago, representing gross profit (loss) margins of (7.7)% and 6.2%, respectively. Costs of contract revenues were $16,533,797 for the nine months ended September 30, 2002 compared to $9,694,220 for the same period a year ago, representing gross profit (loss) margins of (7.1)% and 9.7%, respectively. The Company incurred additional remediation expenses on a construction project that significantly exceeded the original estimate and cost overruns on several other projects. Gross margin fluctuates each year based upon the profitability of specific projects.

General and administrative expenses were $1,187,575 for the three months ended September 30, 2002 compared to $1,125,732 for the same period a year ago. The increase in general and administrative expense for the quarter ended September 30, 2002 increased compared to 2001 is due primarily to a bad debt expense. General and administrative expenses were $3,882,254 for the nine months ended September 30, 2002 compared to $3,942,613 for the nine months ended September 30, 2001. The decrease in the nine month general and administrative expenses in 2002 compared to 2001 is due primarily to no further amortization expense related to intangibles.

13

Interest expense was $474,411 for the three months ended September 30, 2002 compared to $693,965 for the same period in 2001. Interest expense was $1,517,493 for the nine months ended September 30, 2002 compared to $2,037,811 for the same period a year ago. The decrease in interest expense is due to the decrease in long-term debt and replacement of high interest bearing debt with lower interest bearing debt.

Income tax benefit was $609,773 for the three months ended September 30, 2002 compared to income tax expense of $141,944 for the same period a year ago representing effective tax rates of (236)% and 25.3%, respectively. Income tax benefit was $1,498,635 for the nine months ended September 30, 2002 compared to income tax expense of $712,698 for the same period a year ago, representing effective tax rates of (164)% and 33.1%, respectively. The change in the effective rate is primarily due to the recognition of net life insurance proceeds during 2002 which are exempt for income tax purposes.

Results of Operations by Segment:

ACSTAR BONDING:	Three Months ended September 30,		Nine Months ended September 30,	
	2002	2001	2002	2001
Revenue	$1,474,778	1,244,332	4,153,161	4,219,383
Operating Earnings	$ 408,005	408,653	769,363	1,558,298

Revenues for the ACSTAR Bonding segment were $1,474,778 for the three months ended September 30, 2002 compared to $1,244,332 for the same period in 2001. Revenues for the ACSTAR Bonding segment were $4,153,161 for the nine months ended September 30, 2002 compared to $1,320,086 for the nine months ended September 30, 2001. Net written premiums were $3,347,019 for the three months ended September 30, 2002 compared to $855,858 for the three months ended September 30, 2001. Net written premiums were $3,569,767 for the nine months ended September 30, 2002 compared to $2,682,809 for the same period a year ago. Earned premiums were $1,266,436 for the three months ended September 30, 2002 compared to $918,374 for the three months ended September 30, 2001. Earned premiums were $3,277,830 for the nine months ended September 30, 2002 compared to $2,978,740 for the nine months ended September 30, 2001. Also included in 2002 revenues is payment of $212,292 to ACMAT Contracting for funds administration for ACSTAR.

The increase in net written premiums for the three and nine months ended September 30, 2002 as compared to the three and nine months ended September 30, 2001 reflect the impact of the favorable insurance rate market. ACSTAR has experienced a significant increase in business opportunities over the past twelve months that meet ACSTAR's underwriting standards.

Investment income was $406,039 for the three months ended September 30, 2002 compared to $397,567 for the same period a year ago. Investment income was $1,074,423 for the nine months ended September 30, 2002 compared to $1,176,840 for the nine months ended September 30, 2001. The investment income reflects an increase in invested assets partially offset by a decrease in the effective yield on those invested assets.

Operating earnings for the ACSTAR Bonding segment were $408,005 for the three months ended September 30, 2002 compared to $408,653 for the same period in 2001. Operating earnings for the nine months ended September 30, 2002 were $769,363 compared to $1,558,298 for the nine months ended September 30, 2001. The operating earnings for the nine months ended September 30, 2002 reflect the addition of $500,000, net of recoveries, to loss reserves for adverse development in prior years.

Losses and loss adjustment expenses were $253,287 for the three months ended September 30, 2002 compared to $139,344 for the same period a year ago. Losses and loss adjustment expenses were $1,155,566 for the nine months ended September 30, 2002 compared to $346,195 for the same period a year ago. The increase in losses and loss adjustment expenses for the nine months ended September 30, 2002 reflects the emergence of adverse loss trends in the current year and strengthening of loss reserves due to adverse development in prior years partially offset by one-time salvage recovery of $1,677,851. As a result of this strengthening, the Company increased ACSTAR reserves by a net amount of $500,000. Amortization of policy acquisition costs were $471,992 for the three months ended September 30, 2002 compared to $371,666 for the same period in 2001. Amortization of policy acquisition were $1,271,400 for the nine months ended September 30, 2002 compared to $1,248,325 for the same period a year ago.

General and administrative expenses were $341,494 for the three months ended September 30, 2002 compared to $324,669 for the same period a year ago. General and administrative expenses were $956,832 for the nine months ended September 30, 2002 compared to $1,066,565 for the same period a year ago. The decrease in general and administrative expenses is due primarily to no further amortization expense related to intangibles and a one-time rent recovery from an affiliate.

UNITED COASTAL LIABILITY INSURANCE:

	Three Months ended September 30,		Nine Months ended September 30,	
	2002	2001	2002	2001
Revenue	$1,325,337	1,421,332	$3,902,317	4,703,309
Operating Earnings	$ 517,111	624,304	$ 13,308	2,100,693

Revenues for the United Coastal Liability Insurance segment were $1,325,337 for the three months ended September 30, 2002 compared to $1,421,332 for the same period in 2001. Revenues for the United Coastal Liability Insurance segment were $3,902,317 for the nine months ended September 30, 2002 compared to $4,703,309 for the nine months ended September 30, 2001. Net written premiums were $1,009,869 for the three months ended September 30, 2002 compared to $1,175,258 for the three months ended September 30, 2001. Net written premiums were $2,980,704 for the nine months ended September 30, 2002 compared to $3,122,490 for the same period a year ago. Earned premiums were $854,356 for the three months ended September 30, 2002 compared to $884,105 for the three months ended September 30, 2002. Earned premiums were $2,440,839 for the nine months ended September 30, 2002 compared to $2,764,726 for the nine months ended September 30, 2001.

Investment income was $460,747 for the three months ended September 30, 2002 compared to $510,546 for the same period a year ago. Investment income was $1,426,811 for the nine months ended September 30, 2002 compared to $1,772,555 for the nine months ended September 30, 2001. The decrease in investment income was primarily related to a decrease in the effective yield on invested assets and a decrease in the amount of invested assets. Net realized capital losses were $1,412 for the three months ended September 30, 2002, as compared to realized capital gains of $16,788 for the same period a year ago. Net realized capital gains were $15,787 for the nine months ended September 30, 2002 as compared to realized capital gains of $151,657.

Operating earnings for the United Coastal Liability Insurance segment were $517,111 for the three months ended September 30, 2002 as compared to $624,304 for the same period in 2001. Operating earnings for the nine months ended September 30, 2002 were $13,308 compared to $2,100,693 for the nine months ended September 30, 2001. The decrease in 2002 operating earnings compared to 2001 operating earnings is due primarily to a decrease in earned premiums and investment income, as well as the addition of $1,700,000 to loss reserves for adverse development in prior years.

Losses and loss adjustment expenses were $256,308 for the three months ended September 30, 2002 compared to $265,232 for the same period a year ago. Losses and loss adjustment expenses were $2,432,252 for the nine months ended September 30, 2002 compared to $829,417 for the same period a year ago. The increase in losses and loss adjustment expenses for the nine months ended September 30, 2002 is attributable to the strengthening of loss reserves due to adverse development in prior years. During the three-month period ended March 31, 2002, the Company increased United Coastal reserves by a net amount of $1,700,000. Amortization of policy acquisition costs were $268,012 for the three months ended September 30, 2002 as compared to $293,905 for the same period in 2001. Amortization of policy acquisition were $694,985 for the nine months ended September 30, 2002 compared to $936,575 for the same period a year ago. The decrease in amortization of policy acquisition costs is primarily attributable to the decrease in earned premiums and lower commission costs.

General and administrative expenses were $283,096 for the three months ended September 30, 2002 compared to $237,891 for the same period a year ago. General and administrative expenses were $761,772 for the nine months ended September 30, 2002 compared to $836,624 for the same period a year ago. The decrease in general and administrative expenses for the nine month period ended September 30, 2002 is due primarily to a reduction in rent expense from a one-time rent recovery from an affiliate.

ACMAT CONTRACTING:	Three Months ended September 30		Nine Months ended September 3	
	2002	2001	2002	2001
Revenue	$ 4,659,808	5,160,712	$ 18,146,756	13,400,
Operating Earnings	$ (191,882)	263,457	$ (1,700,648)	816,

Revenues for the ACMAT Contracting segment were $4,659,808 for the three months ended September 30, 2002 compared to $5,160,712 for the same period in 2001. Revenues were $18,146,756 for the nine months ended September 30, 2002 compared to $13,400,210 for the same period a year ago. The 2002 increase in revenue reflects an increase in contract revenues compared to 2001 due to the timing of three large projects in 2002. Contract revenue is difficult to predict and depends greatly on the successful securement of contracts bid. Included in revenues is receipt of $212,292 from AcStar Bonding for fund administration services.

Operating losses for the ACMAT Contracting segment were $191,882 for the three months ended September 30, 2002 compared to operating earnings of $263,457 for the same period a year ago. Operating losses were $1,700,648 for the nine months ended September 30, 2002 compared to operating earnings of $816,023 for the nine months ended September 30, 2001. The decrease in 2002 operating earnings compared to 2001 operating earnings is due primarily to additional remediation expenses incurred on a construction project that significantly exceeded the original budget and cost overruns on several other projects.

Cost of contract revenues were $3,921,885 for the three months ended September 30, 2002 compared to $4,022,606 for the same period in 2001 representing gross profit/loss margins of (7.7)% and 6.2%, respectively. Cost of contract revenues were $16,533,797 for the nine months ended September 30, 2002 compared to $9,694,220 for the same period a year ago, representing gross profit/loss margins of (7.1)% and 9.7%, respectively. Gross margin fluctuates each year based upon the profitability of specific projects. The decrease in gross margin for three months and nine months is primarily due to cost overruns and additional remediation expenses, respectively. Contract backlog at September 30, 2002 was approximately $1,200,000 compared to approximately $10,000,000 at September 30, 2001.

General and administrative expenses were $929,805 for the three months ended September 30, 2002 compared to $874,649 for the same period a year ago. General and administrative expenses were $3,313,607 for the nine months ended September 30, 2002 compared to $2,889,967 for the same period a year ago. The increase in general and administrative expense is primarily due to a one-time return of rental income to affiliates collected on their behalf.

RESERVES FOR LOSSES AND LOSS ADJUSTMENT EXPENSES:

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

Management believes that the reserves for losses and loss adjustment expenses at September 30, 2002 are adequate to cover the unpaid portion of the ultimate net cost of losses and loss adjustment expenses, including losses incurred but not reported. Reserves for losses and loss adjustment expenses are estimates at any given point in time of what the Company may have to pay ultimately on incurred losses, including related settlement costs, based on facts and circumstances then known. The Company also reviews its claim reporting patterns, loss experience, risk factors and current trends and considers their effect in the determination of estimates of incurred but not reported reserves. Ultimate losses and loss adjustment expenses are affected by many factors which are difficult to predict, such as claim severity and frequency, inflation levels and unexpected and unfavorable judicial rulings. Reserves for surety claims also consider the amount of collateral held as well as the financial strength of the principal and its indemnitors.

The Company's insurance subsidiaries loss ratios under generally accepted accounting principles ("GAAP") were 24.0% and 22.4% for the three-month period ended September 30, 2002 and 2001, respectively. The increase in losses and loss adjustment expenses is attributable to the emergence of loss trends in the current year. The Company's insurance subsidiaries' expense ratios under GAAP were 64.4% and 66.0% for the three-month period ended September 30, 2002 and 2001, respectively. The decrease in the 2002 expense ratio results primarily from the decrease in commissions paid and one-time rental income recovered from an affiliate. The Company's insurance subsidiaries' combined ratios under GAAP were 88.4% and 88.5% for the three-month period ended September 30, 2002 and 2001, respectively.

The Company's insurance subsidiaries' loss ratios under generally accepted accounting principles ("GAAP") were 62.7% and 20.5% for the nine-month periods ended September 30, 2002 and 2001, respectively. The increase in losses and loss adjustment expenses is attributable to the strengthening of loss reserves due to adverse development in prior years and emergence of loss trends in the current year. During the three-month period ended March 31, 2002, the Company increased reserves by a net amount of $2,200,000. The Company's insurance subsidiaries' expense ratios under GAAP were 64.4% and 69.9% for the nine month period ended September 30, 2002 and 2001, respectively. The decrease in the 2002 expense ratio results primarily from the decrease in commissions paid. The Company's insurance subsidiaries' combined ratios under GAAP were 127.1% and 90.4% for the nine-month period ended September 30, 2002 and 2001, respectively.

LIQUIDITY AND CAPITAL RESOURCES:

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

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

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

The Company provided cash flow from operations of $8,673,243 for the nine-month period ended September 30, 2002 compared to $530,521 for the same period in 2001. Net cash flows provided by operations in 2002 were primarily from life insurance proceeds and cash collateral. Substantially all of the Company's cash flow was used to repay long-term debt, repurchase stock and purchase investment securities. The Company's short term investment strategy coincides with the relatively short maturity of its liabilities which are comprised primarily of reserves for losses covered by claims-made insurance policies, reserves related to surety bonds and collateral held for surety obligations.

Net cash used for investing activities in the first nine-months of 2002 amounted to $4,026,036 compared to net cash provided by investing activities of $3,059,498 for the same period in 2001. Purchases of investments are made based upon excess cash available after the payment of losses and loss adjustment expenses and other operating and non-operating expenses.

The terms of the Company's note agreements contain limitations on payment of cash dividends, re-acquisition of shares, borrowings and investments and require maintenance of specified ratios and minimum net worth levels, including cross default provisions. The Company is in compliance with all covenants at September 30, 2002.

The Company maintains a short-term unsecured bank credit line totaling $10 million to fund interim cash requirements. There were no borrowings under this line of credit as of September 30, 2002.

During the nine-month period ended September 30, 2002, the Company purchased, in the open market and privately negotiated transactions, 4,234 shares of Common Stock at an average price of $19.00 per share. During the nine-month period ended September 30, 2002, the Company also purchased, in the open market and privately negotiated transactions, 9,500 shares of its Class A Stock at an average price of $9.78 per share.

The Company's principal source of cash for repayment of long-term debt is from dividends from its two insurance companies. Under applicable insurance regulations, ACMAT's insurance subsidiaries are restricted as to the amount of dividends they may pay to their respective holding companies, without the prior approval of their domestic State insurance department. The amount of dividends ACMAT's insurance subsidiaries may pay, without prior approval of their domestic State insurance departments, are limited to approximately $5,932,000 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 September 30, 2002 was above the level which might require regulatory action.

CONTRACTUAL CASH OBLIGATIONS AND COMMITMENTS:

Contractual obligations at September 30, 2002 include the following:

Payment due by Period	Total	2002	2003/2004	2005/2006	A
Long-Term Debt (principal)	$22,137,386	$ 426,281	$ 3,780,440	$ 3,757,961	$1

The Company also has cash collateral of $21,997,877 at September 30, 2002, which it would be required to return at the end of expiration of applicable bond period subject to any claims.

Part II - Other Information

Item 4 - Controls and Procedures

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

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

Item 6 - Exhibits and Reports on Form 8-K

a. Exhibits:
   99.1 Certification of Chief Executive Officer
   99.2 Certification of Chief Financial Officer

b. Report on Form 8-K - None

SIGNATURES

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

ACMAT CORPORATION

Date: November 14, 2002

/s/ Henry W. Nozko, Jr.

Henry W. Nozko, Jr., President, Chairman

Chief Executive Officer, and Treasurer

Date: November 14, 2002 /s/ Michael P. Cifone

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

19

CERTIFICATION

I, Henry W. Nozko, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of ACMAT Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. ACMAT's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for ACMAT and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to ACMAT, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of ACMAT's disclosure controls and procedures as of a date within 90 days prior to filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the board of directors;

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect ACMAT's ability to record, process, summarize and report financial data and have identified for ACMAT's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. ACMAT's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

/s/ Henry W. Nozko, Jr.

Chief Executive Officer

CERTIFICATION

I, Michael P. Cifone, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ACMAT Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. ACMAT's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for ACMAT and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to ACMAT, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of ACMAT's disclosure controls and procedures as of a date within 90 days prior to filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the board of directors;

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect ACMAT's ability to record, process, summarize and report financial data and have identified for ACMAT's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. ACMAT's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

/s/ Michael P. Cifone

Chief Financial Officer