ACMAT CORP
Form 10-Q
May 17, 2004

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 March 31, 2004

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from_______ to________

Commission file number 0-6234

ACMAT CORPORATION

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

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

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

NONE

(Former name, former address and former fiscal year, if changed since last report)

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

Yes [X] No [ ]

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

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

Title of Class	Shares outstanding at April 30, 2004
Common Stock	545,329
Class A Stock	1,772,977

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Part I Financial Information
Item I Financial Statements

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets

	March 31, 2004 (Unaudited)
Assets	
Investments:	
Fixed maturities-available for sale at fair value (Cost of $52,986,854 in 2004 and $53,057,097 in 2003)	$ 53,581,008
Equity securities, at fair value (Cost of $11,840,559 in 2004 and $10,240,559 in 2003)	12,288,244
Short-term investments, at cost which approximates fair value	20,560,343
Total investments	86,429,595
Cash and cash equivalents	26,236,021
Accrued interest receivable	406,406
Receivables, net of allowance for doubtful accounts of $330,606 in 2004 and $302,606 in 2003	3,498,373
Reinsurance recoverable:	
Unpaid losses	3,889,281
Paid losses	2,242,379
Prepaid expenses	177,743

Income tax receivable	43,972
Deferred income taxes	2,056,919
Property & equipment, net	11,050,027
Deferred policy acquisition costs	1,590,962
Other assets	2,866,484
Intangibles	1,920,360
	142,408,522
Liabilities & Stockholders' Equity	
Accounts payable	2,213,652
Reserves for losses and loss adjustment expenses	21,699,767
Unearned premiums	6,032,441
Collateral held	49,753,100
Accrued liabilities	1,693,454
Long-term debt	18,247,729
Total liabilities	99,640,143
Stockholders' Equity:	
Common Stock (No par value; 3,500,000 shares authorized; 547,329 and 549,355 shares issued and outstanding)	547,329
Class A Stock (No par value; 10,000,000 shares authorized; 1,741,679 and 1,742,705 shares issued and outstanding)	1,741,679
Retained earnings	39,924,392
Accumulated other comprehensive income	554,979
Total stockholders' equity	42,768,379
	$142,408,522

See Notes to Unaudited Consolidated Financial Statements.

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ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Earnings (Unaudited)
Three Months Ended March 31, 2004 and 2003

	2004	2003
Contract revenues	$2,324,527	724,293
Earned premiums	3,399,584	2,259,803
Investment income, net	751,715	634,319
Net realized capital gains	-	226,122
Other income	166,326	160,656
	6,642,152	4,005,193
Cost of contract revenues	2,310,016	638,385
Losses and loss adjustment expenses	1,382,290	786,124
Amortization of policy acquisition costs	649,256	427,350
General and administrative expenses	1,250,424	1,294,877
Interest expense	234,358	287,380

	5,826,344	3,434,116
Earnings before income taxes	815,808	571,077
Income taxes	296,484	193,490
Net earnings	$ 519,324	377,587
Basic Earnings Per Share	$ .23	$ .16
Diluted Earnings Per Share	$ .22	$ .16

See Notes to Unaudited Consolidated Financial Statements.

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity (Unaudited)
March 31, 2004 and 2003

	Common Stock par value	Class A Stock par value	Retained earnings
Balance as of December 31, 2002	$ 553,355	1,756,405	37,972,59
Comprehensive income:			
Net unrealized losses on debt and equity securities, net of reclassification adjustment	-	-	
Net unrealized loss on derivatives qualifying as cash flow hedges	-	-	
Net earnings	-	-	377,58
Total comprehensive income			
Acquisition and retirement of 2,000 shares of Common Stock	(2,000)	-	(18,65
Acquisition and retirement of 1,300 shares of Class A Stock	-	(1,300)	(11,31
Balance as of March 31, 2003	$ 551,355	1,755,105	38,320,21
Balance as of December 31, 2003	$ 549,355	1,742,705	39,438,77
Comprehensive income:			
Net unrealized gains on debt and equity securities	-	-	
Net unrealized loss on derivatives qualifying as cash flow hedges	-	-	
Net earnings	-	-	519,32
Total comprehensive income			
Acquisition and retirement of 2,026 shares of Common Stock	(2,026)	-	(21,78

Acquisition and retirement of 1,026 shares of Class A Stock	-	(1,026)	(11,93
Balance as of March 31, 2004	$ 547,329	1,741,679	39,924,39

See Notes to Unaudited Consolidated Financial Statements.

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Unaudited)
Three Months Ended March 31, 2004 and 2003

	2004	2003
Cash flows from operating activities:		
Net earnings	$ 519,324	377,587
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	201,528	397,434
Net realized capital gains	-	(226,122)
Deferred income taxes	98,109	(70,576)
Changes in:		
Accrued interest receivable	(64,955)	104,685
Reinsurance recoverable	571,996	(1,779,651)
Receivables, net	(1,275,402)	293,572
Deferred policy acquisition costs	48,363	(260,704)
Prepaid expenses and other assets	531,000	(375,378)
Accounts payable and accrued liabilities	1,502,371	(927,830)
Cash collateral held	8,034,875	2,320,089
Reserves for losses and loss adjustment expenses	851,201	630,133
Income taxes, net	136,372	228,819
Unearned premiums	(325,006)	967,717
Net cash provided by operating activities	10,829,776	1,679,775
Cash flows from investing activities:		
Proceeds from investments sold or matured:		
Fixed maturities-sold	-	6,652,707
Fixed maturities-matured	5,628,318	16,573,669
Purchases of:		
Fixed maturities	(5,612,269)	(15,521,706)
Equity securities	(1,600,000)	(2,500,000)
Short-term investments, (purchases) sales, net	(19,799,471)	(1,353,882)
Capital expenditures	(2,000)	(32,902)
Net cash (used for) cash provided by investing activities	(21,385,422)	3,817,886
Cash flows from financing activities:		
Repayments on long-term debt	(859,564)	(597,557)
Payments for acquisition & retirement of stock	(36,763)	(33,260)
Net cash used for financing activities	(896,327)	(630,817)

Net change in cash and cash equivalents	(11,451,973)	4,866,844
Cash and cash equivalents at beginning of period	37,687,994	18,724,560
Cash and cash equivalents at end of period	$ 26,236,021	23,591,404

See Notes to Unaudited Consolidated Financial Statements.

ACMAT CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(1) Financial Statements

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

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

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

(2) Earnings Per Share

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share ("EPS") computations for the three-month periods ended March 31, 2004 and 2003.

	Earnings	Average Shares Outstanding	Per-Share Amount
2004:			
Basic EPS:			
Earnings available to stockholders	$ 519,324	2,289,711	$ .23
Effect of Dilutive Securities:			
Stock options	---	82,809	
Diluted EPS:			
Earnings available to stockholders	$ 519,324	2,372,520	$ .22

2003

Basic EPS:			
Earnings available to stockholders	$ 377,587	2,308,137	$ .16
Effect of Dilutive Securities:			
Stock options	---	18,797	
Diluted EPS:			
Earnings available to stockholders	$ 377,587	2,326,934	$ .16

(3) Supplemental Cash Flow Information

Income tax paid during the three months ended March 31, 2004 and 2003 was $62,002 and $35,247, respectively. Interest paid for the three months ended March 31, 2004 and 2003 was $236,176 and $289,132, respectively.

(4) Comprehensive Income

The following table summarizes reclassification adjustments for other comprehensive income (loss) and the related tax effects for the three months ended March 31, 2004 and 2003:

	2004	2
Unrealized gains (losses) on investments:		
Unrealized holding gain (loss) arising during period, net of income tax	$292,226	(41
Less reclassification adjustment for gains included in net income, net of income tax expense of $76,881 for 2003	-	14
Unrealized loss on derivatives qualifying as hedges	(88,587)	(
Other comprehensive income (loss)	$203,639	(27

(5) Stock-Based Compensation

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

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

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

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

The pro forma fair value of stock-based compensation in the Company's Class A Shares for the quarter ended March 31, 2004 and 2003 is as follows:

	2004	2003
Net earnings as reported	$ 519,324	377,587
Add: Stock-based employee compensation reported in net earnings, net of related tax effects	-	-
Deduct: Stock-based compensation expense determined under fair value based method, net of related tax effects	(37,083)	(32,067)
Net earnings, pro forma	$ 482,241	345,520
Earnings per share		
Basic and diluted - as reported	$.23/.22	.16/.16
Basic and diluted - pro forma	$.21/.20	.15/.15

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

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

No options were granted in 2003.

(6) Investments

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

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

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

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

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

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

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

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

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

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

The gross unrealized investment losses and related fair value for fixed maturities and equity securities at March 31, 2004 were as follows:

	Less than 12 months		12 months or longer		
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	F
Fixed maturities:					
States, municipalities and political subdivisions	$ ---	---	548,425	319	
United States government and government agencies	1,985,620	14,380	---	---	
Mortgage-backed securities	2,060,000	6,118	2,434,563	64,694	
Industrial and miscellaneous	3,773,564	26,436	1,967,500	32,500	
Total fixed maturities	7,819,184	46,934	4,950,488	97,513	1
Equity securities - common stocks:	---	---	---	---	
Equity securities - redeemable preferred:	---	---	171,500	13,500	
Total equity	996,000	4,000	171,500	13,500	
Total temporarily impaired securities	$7,819,184	46,934	5,121,988	111,013	1

Management has determined that the above unrealized losses were temporary.

(7) Accounting Changes

Consolidation of Variable Interest Entities

In December 2003, the FASB issued Revised Interpretation No. 46R, "Consolidation of Variable Interest Entities" (FIN 46R). FIN 46R clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements", to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46R separates entities into two groups: (1) those for which voting interests are used to determine consolidation and (2) those for which variable interests are used to determine consolidation. FIN 46R clarifies how to identify a variable interest entity and how to determine when a business enterprise should include the assets, liabilities, non-controlling interests and results of activities of a variable interest entity in its consolidated financial statements. FIN 46R was effective for public companies that have VIEs or potential VIEs that are special-purpose entities for periods ending after December 15, 2003. Application by public companies for all other types of entities is required for periods ending after March 15, 2004.

The Company holds mortgage-backed and asset-backed securities which are considered variable interest entities. The provisions of the new standard did not impact the Company.

Hedging Instruments

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

(8) Segment Reporting

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

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

The United Coastal Liability Insurance operating segment offers specific lines of liability insurance as an approved non-admitted excess and surplus lines insurer in forty-seven states, Puerto Rico, the Virgin Islands and the District of Columbia. United Coastal offers claims made and occurrence policies for specific specialty lines of liability insurance through certain excess and surplus lines brokers who are licensed and regulated by the state insurance department(s) in the state(s) in which they operate. United Coastal offers general liability insurance for a wide range of commercial risks and provides 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 commercial and other miscellaneous surety such as workers' compensation bonds, supply bonds, subdivision bonds and license and permit bonds.

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The Company evaluates performance based on earnings before income taxes and excluding interest expense. The Company accounts for intersegment revenue and expenses as if the products/services were to third parties. Information relating to the three segments for the three-month periods ended March 31, 2004 and 2003 is summarized as follows:

	2004	2003
Revenues:		
ACSTAR Bonding	$ 1,894,036	1,747,851
United Coastal Liability Insurance	2,163,732	1,399,415
ACMAT Contracting	3,129,664	1,412,151
	$ 7,187,432	4,559,417
Operating Earnings (Loss):		
ACSTAR Bonding	$ 635,565	671,718
United Coastal Liability Insurance	564,859	435,049
ACMAT Contracting	(150,258)	(248,310)
	$ 1,050,166	858,457
Depreciation and Amortization:		
ACSTAR Bonding	$ 56,414	130,025
United Coastal Liability Insurance	30,348	145,611
ACMAT Contracting	114,766	121,798
	$ 201,528	397,434

	March 31, 2004	December 31, 2003
Identifiable Assets:		
ACSTAR Bonding	$ 84,407,839	73,704,644
United Coastal Liability Insurance	40,321,135	41,015,316
ACMAT Contracting	17,679,548	17,709,897
	$142,408,522	132,429,857

The components of revenue for each segment for the three-month periods ended March 31, 2004 and 2003 are as follows:

	2004	2003
ACSTAR Bonding:		
Premiums	$ 1,587,583	1,177,974
Investment income, net	340,231	323,486
Capital gains	---	180,145
Other income (expense)	(33,778)	66,246
	$ 1,894,036	1,747,851
United Coastal Liability Insurance:		
Premiums	$ 1,812,001	1,081,829
Investment income, net	345,181	265,915
Capital gains	---	45,977

Other	6,550	5,694
	$ 2,163,732	1,399,415
ACMAT Contracting:		
Contract revenues	$ 2,324,527	724,293
Investment income, net	3,716	5,414
Intersegment revenue:		
Rental income	178,702	178,702
Underwriting services and agency commissions	507,283	415,026
Other	115,436	88,716
	$ 3,129,664	1,412,151

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

	2004	2003
Revenue:		
Total revenue for reportable segments	$ 7,187,432	4,559,417
Intersegment eliminations	(545,280)	(554,224)
	$ 6,642,152	4,005,193

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.

	2004	2003
Operating Earnings:		
Total operating earnings for reportable segments	$ 1,050,166	858,457
Interest expense	(234,358)	(287,380)
	$ 815,808	571,077

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

ACMAT CORPORATION AND SUBSIDIARIES

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

Management's discussion and analysis (MD&A) reviews our consolidated and segment financial condition as of March 31, 2004 and 2003, our consolidated results of operations for the periods ended March 31, 2004 and 2003 and where appropriate, factors that may affect our future financial performance. The MD&A should be read in conjunction with the consolidated financial statements of the Company and related notes included in the Company's annual report on Form 10-K for the year ended December 31, 2003.

Executive Summary

2004 Consolidated Results of Operations:

- Net earnings of $519,324, or $.23 per share basic and $.22 per share diluted.

- Earned premiums increased 50% over prior year.

- Favorable insurance premium rate environment.

- Higher interest income and lower interest expense compared to the same quarter last year.

- Construction contract revenues increased significantly compared to the same quarter last year.

2004 Financial Condition:

- Total assets of $142.4 million, up $10 million from the prior year-end.

- Total cash and invested assets of $112.6 million, up $10.3 million from the prior year-end.

- Stockholders' Equity of $42.8 million, up $.7 million from the prior year-end.

- Total debt reduced to $18.2 million from $19.1 million.

- Cash flow provided from operations of $10.8 million, up from $1.7 million

CONSOLIDATED OVERVIEW

	2004	2003
Net Earnings	$ 519,324	377,587
Basic Earnings Per Share	$ .23	$ .16
Diluted Earnings Per Share	$ .22	$ .16

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

Net earnings were $519,324 or $.23 per share basic and $.22 per share diluted in 2004 compared to $377,587 or $.16 per share basic and $.16 per share diluted in 2003. The increase in net earnings for 2004 compared to 2003 is primarily due to an increase in earned premiums and

investment income offset by a decrease in net realized capital gains in 2004. Net earnings for 2004 reflected the continuing favorable rate environment.

Consolidated revenues were as follows:

	2004	2003
Contract revenues	$2,324,527	724,293
Earned premium	3,399,584	2,259,803
Investment income	751,715	634,319
Net realized capital gains	-	226,122
Other income	166,326	160,656
Consolidated revenues	$6,642,152	4,005,193

Total consolidated revenues increased $2,636,959 or 66% in 2004.

Contract revenues increased $1,600,234 or 221% in 2004 due primarily to the timing of four large projects that were started in late 2003. Contract revenue depends greatly on the successful securement of contracts bid and execution. The backlog at March 31, 2004 was $7,350,000 compared to $9,680,000 at December 31, 2003.

Earned premiums increased $1,139,781 or 50% in 2004 due to a 23% increase in net written premiums in ACSTAR Bonding primarily due to a growth in new business and strong customer retention offset by a 22% decrease in 2004 net written premiums in United Coastal liability insurance. Net written premiums for United Coastal liability insurance business in 2004 decreased by 22% due to the non-renewal of several large premium policies in 2004.

Investment income increased $117,396 or 19% in 2004 due primarily to higher average invested assets resulting from strong cash flows from operations. The increase was offset by a reduction in investment yields to 2.80% in 2004 from 2.86% in 2003. The decrease in yield reflected the lower interest rate environment and the short duration of the Company's portfolio partially offset by the reinvestment of proceeds from the sale of lower yielding tax-exempt investments during 2003.

Net realized capital gains were $-0- in 2004 compared to $226,122 in 2003. During 2003, the Company sold most of its tax-exempt investments in order to accelerate the use of an alternative minimum tax credit carryforward generated with the recognition of net life insurance proceeds in 2002 that were exempt for income tax purposes.

Other income increased $5,670 or 4% in 2004. Other revenues consist primarily of rental income and funds administration fees charged to bonding customers.

Consolidated expenses were as follows:

	2004	2003

Cost of contract revenues	$2,310,016	638,385
Losses and loss adjustment expenses	1,382,290	786,124
Amortization of policy acquisition costs	649,256	427,350
General and Administrative expenses	1,250,424	1,294,877
Interest expense	234,358	287,380
	$5,826,344	3,434,116

Consolidated expenses increased $2,392,228 or 70% in 2004.

Cost of contract revenues increased $1,671,631 or 262% in 2004 primarily due to the 221% increase in contract revenues in 2004 due to the timing of four large projects that were started later in 2003. The gross profit margin on construction projects was 0.6% in 2004 compared to a 13.5% in 2003. The gross profit of the four-current projects was offset by costs associated with closing out older projects. Gross margins fluctuate each year based upon the profitability of specific projects.

Losses and loss adjustment expenses increased $596,166 or 76% in 2004 primarily due to the 50% increase in earned premiums and an increase in current year expected loss trends for liability insurance.

Amortization of policy acquisition costs increased $221,906 or 52% in 2004 primarily due to the increase in earned premiums offset in part by a decrease in commissions rate.

General and administrative expenses decreased $44,453 or 3% in 2004 primarily due to an decrease in salary expense and depreciation expense.

Interest expense decreased $53,022 or 18% in 2004 primarily due to the decrease in long-term debt.

The Company's effective tax rate was 36.4% and 33.9% in 2004 and 2003, respectively. The 2004 increase in the effective tax rate principally reflects the elimination of tax-exempt investments during the first quarter of 2003.

Results of Operations by Segment:

The Company has three reportable operating segments: ACSTAR Bonding, United Coastal Liability Insurance and ACMAT Contracting. The Company's reportable segments are primarily the three main legal entities of the Company which offer different products and services. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The adjustments and eliminations required to arrive at consolidated amounts shown above consist principally of the elimination of the intersegment revenues related to the performance of certain services and rental charges.

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

ACSTAR BONDING:

	2004	2003
Operating Earnings	$ 635,565	$ 671,718
GAAP Combined Ratio	79.3%	91.4%

Operating earnings for the ACSTAR Bonding segment decreased $36,153 or 5.4% in 2004. The operating earnings in 2004 benefited from an increase in earned premiums and a 12 point improvement in the GAAP combined ratio in 2004.

ACSTAR Bonding revenues were as follows:

	2004	2003
Earned premium	$ 1,587,583	1,177,974
Investment income	340,231	323,486
Net realized capital gains	---	180,145
Other income (expense)	(33,778)	66,246
	$ 1,894,036	1,747,851

Revenues increased $146,185 or 8.4% in 2004.

Earned premiums increased $409,609 or 35% in 2004 due to a 23% increase in net written premiums primarily due to a growth in new business and strong customer retention. ACSTAR continues to experience a significant increase in volume from an increase in business opportunities that meet ACSTAR's underwriting standards.

Investment income increased $16,745 or 5% in 2004 despite higher average invested assets resulting from strong cash flows from operations. The decline resulted from a reduction in investment yields to 1.9% in 2004 from 2.5% in 2003. The decrease in yield reflected the lower interest rate environment and the short duration of the Company's portfolio partially offset by the reinvestment of proceeds from the sale of lower yielding tax-exempt investments during 2003.

Net realized capital gains were $0 in 2004 compared to $180,145 in 2003. During 2003, the Company sold most of its tax-exempt investments in order to accelerate the use of an alternative minimum tax credit carryforward generated with the recognition of net life insurance proceeds by the parent company in 2002 that were exempt for income tax purposes.

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

ACSTAR Bonding expenses were as follows:

	2004	2003
Losses and loss adjustment expenses	$ 476,290	353,392
Amortization of policy acquisition costs	494,549	432,168
General and administrative expenses	287,632	290,573
	$1,258,471	1,076,133

Expenses increased $182,338 or 17% in 2004.

Losses and loss adjustment expenses increased $122,898 or 35% in 2004 primarily due to the increase in earned premiums from higher business volume.

Amortization of policy acquisition costs increased $62,381 or 14% in 2004 primarily due to the increase in earned premiums offset in part by a decrease in commissions paid.

General and administrative expenses decreased $2,941 or 1% in 2004 primarily due to a decrease in depreciation expense.

UNITED COASTAL LIABILITY INSURANCE:

	2004	2003
Operating Earnings	564,859	$ 435,049
GAAP Combined Ratio	88.2%	89.1%

Operating earnings for the United Coastal Liability Insurance segment increased $129,810 or 30% in 2004. The operating earnings in 2004 benefited from a 67% increase in earned premiums and an increase in investment income.

United Coastal Liability Insurance revenues were as follows:

	2004	2003
Earned premium	$1,812,001	1,081,829
Investment income	345,181	265,915
Net realized capital gains	-0-	45,977
Other income	6,550	5,694
	$2,163,732	1,399,415

Revenues increased $764,317 or 55% in 2004.

Earned premiums increased $730,172 or 67% in 2004 due to a 73% increase in net written premiums in 2003 offset in part by a 22% decrease in written premiums in the first quarter of 2004 due to the non-renewal of several large premium policies in 2004.

Investment income increased $79,266 or 30% in 2004 as a result of higher average invested assets resulting from strong cash flows from operations and an improvement in investment yields to 4.2% in 2004 from 3.0% in 2003.

Net realized capital gains were $0 in 2004 compared to $45,977 in 2003. During 2004, the Company sold most of its tax-exempt investments in order to accelerate the use of an alternative minimum tax credit carryforward generated with the recognition of net life insurance proceeds by the parent company in 2002 that were exempt for income tax purposes.

United Coastal Liability Insurance expenses were as follows:

	2004	2003
Losses and loss adjustment expenses	$ 906,000	432,732
Amortization of policy acquisition costs	446,076	293,713
General and administrative expenses	246,797	237,921
	$1,598,873	964,366

Expenses increased $634,507 or 66% in 2004.

Losses and loss adjustment expenses increased $473,218 or 110% in 2004 primarily due to the 67% increase in earned premiums and an increase in current year expected loss trends for liability insurance.

Amortization of policy acquisition costs increased $152,363 or 52% in 2004 primarily due to the 67% increase in earned premiums.

General and administrative expenses increased $8,876 or 4% in 2004 primarily due to an increase in bad debt expense and salary expense offset in part by a decrease in rental expense.

ACMAT CONTRACTING:

	2004	2003
Operating Earnings (Loss)	$(150,258)	$(248,310)

Operating earnings (loss) for the ACMAT Contracting segment improved $98,052 or 39% in 2004.

ACMAT Contracting revenues were as follows:

	2004	2003

Contract revenues	$2,324,527	724,293
Investment income, net	3,716	5,414
Inter-segment revenue:		
Rental income	178,702	178,702
Underwriting services and agency commissions	507,283	415,026
Other income	115,436	88,716
	$3,129,664	1,412,151

Contract revenues increased $1,600,234 or 221% in 2004 due primarily to the timing of four large projects that were started in late 2003. Contract revenue depends greatly on the successful securement of contracts bid and execution. The backlog at March 31, 2004 was $7,350,000 compared to $9,680,000 at December 31, 2003.

Inter-segment revenues consists primarily of rental income and underwriting services fees and agency commissions. Underwriting services fees and agency commissions increased $92,257 or 22% in 2004. Other income consists primarily of rental income and varies depending on the timing of tenants and their leases. Other income increased $26,720 or 30% in 2004.

ACMAT Contracting expenses were as follows:

	2004	2003
Cost of contract revenues	$2,310,016	638,385
General and administrative expenses	969,906	1,022,026
	$3,279,922	1,660,411

Expenses increased $1,619,511 or 98% in 2004.

Cost of contract revenues increased $1,671,631 or 262% in 2004 primarily due to the 221% increase in contract revenues in 2004 due to the timing of four large projects that were started in late 2003. The gross profit margin on construction projects was 0.6% in 2004 compared to 13.5% in 2003. The gross profit of the four current projects was offset by costs associated with closing out older projects. Gross margins fluctuate each year based upon the profitability of specific projects.

General and administrative expenses decreased $52,120 or 5% in 2004 primarily due to an decrease in salary expense and depreciation expense.

CRITICAL ACCOUNTING ESTIMATES

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

Reserves for losses and loss adjustment expenses were $21,699,767 at March 31, 2004. The Company maintains reserves to cover estimated ultimate unpaid liability for losses and loss adjustment expenses with respect to both reported and incurred but not reported claims for insured risks incurred as of the end of each accounting period. The amount of loss reserves for reported claims is primarily based upon a case-by-case evaluation of the type of risk involved, knowledge of the circumstances surrounding each claim and the policy provisions relating to the type of

claim. As part of the reserving process, historical data is reviewed and consideration is given to the anticipated impact of various factors such as legal developments and economic conditions, including the effects of inflation. Reserves are monitored and evaluated periodically using current information on reported claims. This is a critical accounting policy for the insurance operations.

Management believes that the reserves for losses and loss adjustment expenses at March 31, 2004 are adequate to cover the unpaid portion of the ultimate net cost of losses and loss adjustment expenses, including losses incurred but not reported. Reserves for losses and loss adjustment expenses are estimates at any given point in time of what the Company may have to pay ultimately on incurred losses, including related settlement costs based on facts and circumstances then known. The Company also reviews its claims reporting patterns, past loss experience, risk factors and current trends and considers their effect in the determination of estimates of incurred but not reported reserves. Ultimate losses and loss adjustment expenses are affected by many factors which are difficult to predict, such as claim severity and frequency, inflation levels and unexpected and unfavorable judicial rulings. Reserves for surety claims also consider the amount of collateral held as well as the financial strength of the principal and its indemnitors.

Revenue on construction contracts is recorded using the percentage of completion method. Under this method revenues with respect to individual contracts are recognized in the proportion that costs incurred to date relate to total estimated costs. Revenues and cost estimates are subject to revision during the terms of the contracts, and any required adjustments are made in the periods in which the revisions become known. Provisions are made, where applicable, for the entire amount of anticipated future losses on contracts in progress. Construction claims are recorded as revenue at the time of settlement and profit incentives and change orders are included in revenues when their realization is reasonably assured. 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 operations and maintains a relatively high degree of liquidity in its investment portfolio. The primary sources of funds to meet the demands of claim settlements and operating expenses are premium collections, investment earnings and maturing investments. The Company has no material commitments for capital expenditures and, in the opinion of management, has adequate sources of liquidity to fund its operations over the next 12 months.

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

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

The Company had net cash inflows from operations of $10,829,776 for the three-month period ended March 31, 2004 compared to $1,679,775 for the same period in 2003. The cash flow from operations is due primarily to the increase in cash collateral. The Company's cash flow was used to repay long-term debt, repurchase stock and purchase short investments.

Net cash used for investing activities in the first quarter of 2004 amounted to $21,385,422 compared to net cash provided by investing activities of $3,817,886 for the same period in 2003. Purchases of investments are made based upon excess cash available after the payment of losses and loss adjustment expenses and other expenses. The Company's short term investment strategy coincides with the relatively short maturity of its liabilities which are comprised primarily of reserves for losses covered by claims-made insurance policies, reserves related to surety bonds and collateral held for surety obligations.

The terms of the Company's debt 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. The Company is in compliance with all covenants at March 31, 2004, except for the ratio of Adjusted Cash Flow to the sum of interest expense plus scheduled maturities of long-term debt. The Company expects to be in compliance during 2004.

The Company maintains a short-term unsecured bank credit line totaling $10 million to fund interim cash requirements. There were no borrowings under this line of credit as of March 31, 2004.

During the three-month period ended March 31, 2004, the Company purchased, in the open market and privately negotiated transactions, 2,026 shares of its Common Stock at an average price of $11.75 per share. In addition, the Company purchased, in the open market and privately negotiated transactions, 1,026 shares of its Class A Stock at an average price of $12.63 per share during the three-month period ended March 31, 2004.

The Company's principal source of cash for repayment of long-term debt is from dividends from its two insurance companies. Under applicable insurance regulations, ACMAT's insurance subsidiaries are restricted as to the amount of dividends they may pay to their respective

holding companies, without the prior approval of their domestic state insurance department. The amount of dividends ACMAT's insurance subsidiaries may pay, without prior approval of their domestic state insurance departments, are limited to approximately $3,920,000 in 2004.

REGULATORY ENVIRONMENT

Risk-based capital requirements are used as early warning tools by the National Association of Insurance Commissioners and the states to identify companies that require further regulatory action. The ratio for each of the Company's insurance subsidiaries as of March 31, 2004 was above the level which might require regulatory action.

CONTRACTUAL CASH OBLIGATIONS AND COMMITMENTS:

Contractual obligations at March 31, 2004 include the following:

Payment due by Period	Total	2003	2004/2005	2006/2007	After 2006
Long-Term Debt (principal)	$18,247,729	$858,804	$5,223,604	$5,217,451	$8,665,478

The Company also has cash collateral of $49,753,100 at March 31, 2004, which it would be required to return at the end of expiration of applicable bond period subject to any claims.

Forward-Looking Statement Disclosure and Certain Risks

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

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

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

Part II - Other Information

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

e. The following table provides information about purchases by the Company during the quarter ended March 31, 2004 of equity securities that are registered by the company pursuant to Section 12 of the Exchange Act.

ISSUER PURCHASE OF EQUITY SECURITIES

Period	(a) Total Number of Shares (or Units) Purchased (1) Common	Class A	(b) Average Price Paid per Share (or Unit) Common	Class A	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (2)	(d) Maximum Nu (or Approx Dollar Valu Shares (or Uni May Yet Purchased Un Plans or Prog
1/01/04 - 1/31/04	526	1,026	$11.75	$12.63	N/A	N/A
2/01/04 - 2/29/04	1,500	--	$11.75	--	N/A	N/A
3/01/04 - 3/31/04	--	--	--	--	N/A	N/A
TOTAL	2,026	1,026	$11.75	$12.63	N/A	N/A

(1) During the three-month period ended March 31, 2004, the Company purchased, in the open market and privately negotiated transactions, 2,026 shares of its Common Stock at an average price of $11.75 per share. In addition, the Company purchased, in the open market and privately negotiated transactions, 1,026 shares of its Class A Stock at an average price of $12.63 per share during the three-month period ended March 31,2004.

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

Item 4 - Controls and Procedures

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

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

Item 6 - Exhibits and Reports on Form 8-K

a. Exhibits:

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

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

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

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

b. Report on Form 8-K - None

SIGNATURES

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

ACMAT CORPORATION

Date: May 14, 2004

/s/ Henry W. Nozko, Jr.

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

Date: May 14, 2004

/s/ Michael P. Cifone

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