ACMAT CORP
Form 10-Q
May 15, 2002

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, 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 April 30, 2002
Common Stock	553,355
Class A Stock	1,827,019

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Part I Financial Information
Item I Financial Statements

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets

Assets	March 31, 2002
Investments:	
Fixed maturities-available for sale at fair value (Cost of $60,957,059 in 2002 and $61,841,391 in 2001)	$ 60,984,796
Equity securities, at fair value (Cost of $5,625,262 in 2002 and $5,065,262 in 2001)	5,373,940
Short-term investments, at cost which approximates fair value	314,546
Total investments	66,673,282
Cash and cash equivalents	17,065,006
Accrued interest receivable	691,816
Receivables, net	6,755,420
Reinsurance recoverable	2,428,186
Prepaid expenses	210,061
Income tax receivable	377,132
Deferred income taxes	595,335
Property & equipment, net	12,123,455
Deferred policy acquisition costs	1,137,282
Other assets	2,259,536
Intangibles, net	1,920,360
	$ 112,236,871

Liabilities & Stockholders' Equity

Accounts payable	4,651,867
Reserves for losses and loss adjustment expenses	22,677,814
Unearned premiums	3,999,820
Collateral held	17,704,286
Income taxes	--
Accrued liabilities	829,232
Long-term debt	24,131,491
Total liabilities	73,994,510
Commitments and contingencies	
Stockholders' Equity:	
Common Stock (No par value; 3,500,000 shares authorized; 553,355 and 557,589 shares issued and outstanding)	553,355
Class A Stock (No par value; 10,000,000 shares authorized; 1,827,019 and 1,827,019 shares issued and outstanding)	1,827,019
Retained earnings	36,104,405
Accumulated other comprehensive income (loss)	(242,418)
Total stockholders' equity	38,242,361
	$ 112,236,871

See Notes to Consolidated Financial Statements.

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ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Earnings (Unaudited)
Three Months Ended March 31, 2002 and 2001

	2002	2001
Contract revenues	$ 5,167,531	2,664,337
Earned premiums	1,539,536	2,031,980
Investment income, net	884,513	1,104,185
Net realized capital gains (losses)	17,653	22,141
Life insurance proceeds, net	3,348,903	--
Other income	103,000	154,272
	11,061,136	5,976,915
Cost of contract revenues	5,674,741	2,342,810
Losses and loss adjustment expenses	2,581,543	411,838
Amortization of policy acquisition costs	432,563	357,083
General and administrative expenses	1,440,543	1,406,592
Interest expense	537,214	691,276
	10,666,604	5,209,599
Earnings before income taxes	394,532	767,316

Income taxes (benefits)	(342,777)	248,417
Net earnings	$ 737,309	518,899
Basic Earnings Per Share	$ .31	$ .21
Diluted Earnings Per Share	$ .30	$ .20

See Notes to Consolidated Financial Statements.

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ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity (Unaudited)
March 31, 2002 and 2001

	Common stock par value	Class A stock par value	Additional paid-in capital	Retain earnin
Balance as of December 31, 2000	$ 557,589	2,057,254	-	35,326,
Comprehensive income:				
Net unrealized gains on debt and equity securities	--	--	-	
Net earnings	--	--	-	518,
Total comprehensive income				
Acquisition and retirement of 105,000 shares of Class A Stock	--	(105,000)	-	(697,
Balance as of March 31, 2001	$ 557,589	1,952,254	-	35,147,
Balance as of December 31, 2001	$ 557,589	1,827,019	-	35,460,
Comprehensive income:				
Net unrealized losses on debt and equity securities	--	--	-	
Net earnings	--	--	-	737,
Total comprehensive income				
Acquisition and retirement of 4,234 shares of Common Stock	(4,234)	--	-	(76,
Acquisition and retirement of 7,500 shares of Class A Stock	--	(7,500)	-	(63,
Exercise of 7,500 shares of Class A				

Stock pursuant to Stock options	--	7,500	-	46,
Balance as of March 31, 2002	$ 553,355	1,827,019	-	36,104,

See Notes to Consolidated Financial Statements.

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Unaudited)
Three Months Ended March 31, 2002 and 2001

Cash flows from operating activities:	
Net earnings	$
Adjustments to reconcile net earnings to net cash provided by (used for) operating activities:	
Depreciation and amortization	
Net realized capital (gains) losses	
Changes in:	
Accrued interest receivable	
Reinsurance recoverable	
Receivables, net	(1
Deferred policy acquisition costs	
Prepaid expenses and other assets	2
Accounts payable and accrued liabilities	1
Cash collateral held	1
Reserves for losses and loss adjustment expenses	
Income taxes, net	
Unearned premiums	
Net cash provided by (used for) operating activities	4
Cash flows from investing activities: Proceeds from investments sold or matured:	
Fixed maturities-sold	2
Fixed maturities-matured	6
Equity securities	
Mortgages	
Short-term investments	3
Purchases of:	
Fixed maturities	(7
Equity securities	(1
Short-term investments	(3
Capital expenditures	
Net cash provided by investing activities	
Cash flows from financing activities:	
Repayments on long-term debt	
Issuance of Class A Stock	
Payments for acquisition & retirement of stock	

Net cash used for financing activities	----
Net change in cash and cash equivalents	4
Cash and cash equivalents at beginning of period	12
Cash and cash equivalents at end of period	$ 17

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 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, 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 March 31, 2002 and 2001.

2002:	Earnings	Average Shares Outstanding	Pe A
Basic EPS:			
Earnings available to stockholders	$ 737,309	2,382,043	$
Effect of Dilutive Securities:			
Stock options	--	54,343	
Diluted EPS:			
Earnings available to stockholders	$ 737,309	2,436,386	$

	=========	=========	===
2001:			
Basic EPS:			
Earnings available to stockholders	$ 518,899	2,527,343	$
Effect of Dilutive Securities:			
Stock options	--	52,073	
	---------	---------	
Diluted EPS:			
Earnings available to stockholders	$ 518,899	2,579,417	$
	=========	=========	===

The Convertible Notes were anti-dilutive in 2001.

(3) Supplemental Cash Flow Information

Income tax paid during the three months ended March 31, 2002 and 2001 was $117,985 and $95,276, respectively. Interest paid for the three months ended March 31, 2002 and 2001 was $282,344 and $372,402, 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, 2002 and 2001:

Unrealized gains (losses) on investments:
Unrealized holding gain (loss) arising during period, net of income tax
Less reclassification adjustment for gains (losses) included in net income, net of income tax expense of $6,001 and $7,528 for 2002 and 2001, respectively
Other comprehensive income (loss)

(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 intangible 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 months ended March 31, 2001 are as follows:

For the three months ended	March 31, 2001
Net Earnings	$518,899
Intangible Amortization	38,073
Adjusted Net Earnings	556,972
Basic earnings per share:	
Reported earnings per share	$ .21
Intangible amortization	.02
Adjusted earnings per share	.23
Diluted earnings per share:	
Reported earnings per share	$ .20
Intangible amortization	.01
Adjusted earnings per share	.21

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.

(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 three-month period ended March 31, 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: ACMAT Contracting, ACSTAR Bonding and United Coastal Liability Insurance. The Company's reportable segments are primarily the three main legal entities of the Company which offer different products and services. The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

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

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

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

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, 2002 and 2001 is summarized as follows:

	2002	2001
Revenues:		
ACSTAR Bonding	$ 1,132,867	1,379,589
United Coastal Liability Insurance	1,238,216	1,718,509
ACMAT Contracting	5,871,677	3,710,831
	$ 8,242,760	6,808,929
Operating Earnings (Loss):		
ACSTAR Bonding	($238,180)	464,815
United Coastal Liability Insurance	(1,263,153)	741,783
ACMAT Contracting	(915,824)	376,534
	$ (2,417,157)	1,583,132
Depreciation and Amortization:		
ACSTAR Bonding	$ 99,141	151,197
United Coastal Liability Insurance	49,703	87,117
ACMAT Contracting	144,740	167,007
	$ 293,584	405,321
Identifiable Assets:		
ACSTAR Bonding	$ 51,619,183	43,220,493
United Coastal Liability Insurance	39,458,825	54,114,409
ACMAT Contracting	21,158,863	17,023,005
	$ 112,236,871	114,357,907

The components of revenue for each segment for the three-month periods ended March 31, 2002 and 2001 are as follows:

	2002	2001
ACSTAR Bonding:		
Premiums	$ 803,178	982,304
Investment income, net	330,380	387,969
Capital gains (losses)	(237)	3,750
Other	(454)	5,566
	$ 1,132,867	1,379,589
United Coastal Liability Insurance:		
Premiums	$ 736,358	1,049,676
Investment income, net	481,360	649,891
Capital gains (losses)	17,890	18,391
Other	2,608	551

	$ 1,238,216	1,718,509
ACMAT Contracting:		
Contract revenues	$ 5,167,531	2,664,337
Investment income, net	42,773	21,329
Intersegment revenue:		
Rental income	369,979	361,771
Underwriting services and agency commissions	191,731	515,239
Other	99,663	148,155
	$ 5,871,677	3,710,831

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

Revenue:	2002	2001
Total revenue for reportable segments	$ 8,242,760	6,808,929
Life insurance proceeds, net	3,348,903	--
Intersegment eliminations	(530,527)	(832,014)
	$ 11,061,136	5,976,915

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

Operating Earnings:		
Total operating earnings (loss) for reportable segments	$ (2,417,157)	1,583,132
Interest expense	(537,214)	(691,276)
Life insurance proceeds, net	3,348,903	--
Other operating expenses	--	(124,540)
	$ 394,532	767,316

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.

ACMAT CORPORATION AND SUBSIDIARIES

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

CONSOLIDATED RESULTS OF OPERATIONS:

Net earnings were $737,309 for the three months ended March 31, 2002 compared to $518,899 for the same period a year ago. The increase in 2002 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. Net earnings were also negatively impacted by an increase to loss reserves due to adverse development in prior years and additional remediation expenses incurred on a construction project that significantly exceeded the original estimate.

Revenues were $11,061,136 for the three months ended March 31, 2002 compared to $5,976,915 for the same period in 2001. The increase in 2002 revenues reflects the net affect of life insurance proceeds and related obligations due to the death of the Chairman and President of the Company and an increase in construction revenues. Earned premiums were $1,539,536 for the three months ended March 31, 2002 compared to $2,031,980 for the same period a year ago. Contract revenues were $5,167,531 for the three months ended March 31, 2002 compared to $2,664,337 for the same period a year ago. Contract revenue is difficult to predict and depends greatly on the successful securement of contracts bid.

Investment income was $884,513 compared to $1,104,185 for the same period in 2001. The decrease in investment income was primarily related to a decrease in invested assets which were used to reduce long-term debt. Net realized capital gains were $17,653 for the three months ended March 31, 2002 compared to $22,141 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 $103,000 for the three months ended March 31, 2002 compared to $154,272 for the same period in 2001. Other income is primarily comprised of rental income.

Losses and loss adjustment expenses were $2,581,543 for the three months ended March 31, 2002 compared to $411,838 for the same period a year ago. The increase in losses and loss adjustment expenses 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 reserves by a net amount of $2,200,000. Amortization of policy acquisition costs were $432,563 for the three months ended March 31, 2002 compared to $357,083 for the same period in 2001.

Costs of contract revenues were $5,674,741 for the three months ended March 31, 2002 compared to $2,342,810 for the same period a year ago. The gross loss margin on construction projects was (10%) in 2002 compared to 12% in 2001. The Company incurred additional remediation expenses incurred on a construction project that significantly exceeded the original estimate. Gross margin fluctuations each year based upon the profitability of specific projects.

General and administrative expenses were $1,440,543 for the three months ended March 31, 2002 compared to $1,406,592 for the same period a year ago.

Interest expense was $537,214 for the three months ended March 31, 2002 compared to $691,276 for the same period in 2001. The decrease in interest expense is due to the decrease in long-term debt.

Income tax benefit was $342,777 for the three months ended March 31, 2002 compared to income tax expense $248,417 for the same period a year ago representing effective tax rates of (87)% and 32.4%, respectively. The change in the effective rate is primarily due to the recognition of net life insurance proceeds during the three months ended March 31, 2002 which are exempt for income tax purposes.

Results of Operations by Segment:

ACSTAR BONDING:

	2002	2001
Revenue	$1,132,867	1,379,589
Operating Earnings (loss)	$ (238,180)	464,815

Revenues for the ACSTAR Bonding segment were $1,132,867 for the three months ended March 31, 2002 compared to $1,379,589 for the same period in 2001. Net written premiums were $667,132 for the three months ended March 31, 2002 compared to $840,433 for the three months ended March 31, 2001. Earned premiums were $803,178 for the three months ended March 31, 2002 compared to $982,304 for the three months ended March 31, 2001.

The decrease in net written premiums and earned premiums for the three months ended March 31, 2002 as compared to the three months ended March 31, 2001 reflect the Company's strategy to selectively underwrite principals during these uncertain economic times.

Investment income was $330,380 for the three months ended March 31, 2002 compared to $387,969 for the same period a year ago. The decrease in investment income was primarily related to a decrease in invested assets.

ACSTAR Bonding segment incurred an operating loss of ($238,180) for the three months ended March 31, 2002 compared to operating earnings of $464,815 for the same period in 2001. The operating loss in 2002 is due primarily to the addition of $500,000, net of recoveries, to loss reserves for adverse development in prior years.

Losses and loss adjustment expenses were $660,636 for the three months ended March 31, 2002 compared to $96,934 for the same period a year ago. The increase in losses and loss adjustment expenses is attributable to the strengthening of loss reserves due to adverse development in prior years and also reflects the emergence of adverse loss trends in the current year. During the three-month period ended March 31, 2002, the Company increased ACSTAR reserves by a net amount of $500,000. Amortization of policy acquisition costs were $338,028 for the three months ended March 31, 2002 compared to $409,188 for the same period in 2001.

General and administrative expenses were $372,383 for the three months ended March 31, 2002 compared to $408,651 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.

UNITED COASTAL LIABILITY

INSURANCE:

	2002	2001
Revenue	$ 1,238,216	1,718,509
Operating Earnings	$ (1,263,153)	741,783

Revenues for the United Coastal Liability Insurance segment were $1,238,216 for the three months ended March 31, 2002 compared to $1,718,509 for the same period in 2001. Net written premiums were $804,755 for the three months ended March 31, 2002 compared to $1,701,541 for the three months ended March 31, 2001. Earned premiums were $736,358 for the three months ended March 31, 2002 compared to $1,049,676 for the three months ended March 31, 2001.

Investment income was $481,360 for the three months ended March 31, 2002 compared to $649,891 for the same period a year ago. The decrease in investment income was primarily related to a decrease in invested assets as a result of dividends distributed to the parent company to reduce corporate debt. Net realized capital gains were $17,890 for the three months ended March 31, 2002 as compared to realized capital gains of $18,391 for the same period a year ago.

United Coastal Liability Insurance segment incurred an operating loss of ($1,263,153) for the three months ended March 31, 2002 as compared to operating earnings of $741,783 for the same period in 2001. The operating loss in 2002 is due primarily to the addition of $1,700,000 to loss reserves for adverse development in prior years.

Losses and loss adjustments were $1,920,907 for the three months ended March 31, 2002 compared to $314,903 for the same period a year ago. The increase in losses and loss adjustment expenses 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 Untied Coastal reserves by a real amount of $1,700,000. Amortization of policy acquisition costs were $219,879 for the three months ended March 31, 2002 as compared to $383,901 for the same period in 2001. The decrease in amortization of policy acquisition costs is primarily attributable to the decrease in earned premiums.

General and administrative expenses were $360,583 for the three months ended March 31, 2002 compared to $277,922 for the same period a year ago. The increase in general and administrative expenses is due primarily to expenses related to the statutory audit by The Arizona Insurance Department.

ACMAT CONTRACTING:

	2002	2001
Revenue	$5,871,677	3,710,831
Operating Earnings (Loss)	$ (915,824)	376,534

Revenues for the ACMAT Contracting segment were $5,871,677 for the three months ended March 31, 2002 compared to $3,710,831 for the same period in 2001. The 2002 increase in revenue reflects a increase in contract revenues compared to

2001 due to the timing of three large projects in 2002.

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.

Operating losses for the ACMAT Contracting segment were $(915,824) for the three months ended March 31, 2002 compared to operating earnings of $376,534 for the same period a year ago. 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 original estimate.

Cost of contract revenues were $5,674,741 for the three months ended March 31, 2002 compared to $2,342,810 for the same period in 2001. The gross loss margin on construction projects was 10 % in 2002 compared to gross profit margin of 12% in 2001. Gross margin fluctuations each year based upon the profitability of specific projects.

General and administrative expenses were $1,112,760 for the three months ended March 31, 2002 compared to $1,142,027 for the same period a year ago.

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 March 31, 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 167.7% and 20.3% for the three-month periods ended March 31, 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 83.8% and 72.8% for the three-month period ended March 31, 2002 and 2001, respectively. The increase in the 2002 expense ratio results primarily from the decrease in earned premiums. The Company's insurance subsidiaries' combined ratios under GAAP were 251.5% and 93.1% for the three-month period ended March 31, 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. ACMAT has recently relied on dividends from its insurance subsidiaries to repay debt and repurchase Company Stock.

The Company provided cash flow from operations of $4,540,445 for the three-month period ended March 31, 2002 compared to the cash flow used for operations of $1,893,097 for the same period in 2001. Net cash flows provided from operations in 2002 were provided from net 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 investments. The Company's short term investment strategy coincides with the relatively short maturity of its liabilities which are comprised primarily of reserves for losses covered by claims-made insurance policies, reserves related to surety bonds and collateral held for surety obligations.

Net cash provided by investing activities in the first quarter of 2002 amounted to $255,790 compared to $1,923,307 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 payment of future cash dividends and the re-acquisition of shares are restricted each to amounts of an Available Fund. The Available Fund is a cumulative fund which is increased each year by 20% of the Consolidated Net Earnings (as defined). The Company is in compliance with all covenants at March 31, 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 March 31, 2002.

During the three-month period ended March 31, 2002, the Company purchased, in the open market and privately negotiated transactions, 4,234 shares of its Common Stock at an average price of $19 per share. In addition, the Company purchased, in a privately negotiated transaction, 7500 shares of its Class A Stock at an average price of $9.50 per share during the three-month period ended March 31, 2002.

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 $5,930,000 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 March 31, 2002 was above the level which might require regulatory action.

CONTRACTUAL CASH OBLIGATIONS AND COMMITMENTS:

Contractual obligations at March 31, 2002 include the following:

Payment due by Period	Total	Less than 1 Year	1 to 3 Years	4 to
Long-Term Debt (principal)	$24,131,491	$2,170,386	$3,780,440	3,75

The Company also has cash collateral of $17,704,286 at March 31, 2002, which it would be required to return at the end of expiration of applicable bond period subject to any claims.

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Part II - Other Information

Item 6 - Exhibits and Reports on Form 8-K

a. Exhibits - None

b. Report on Form 8-K -

On January 18, 2002, the Company filed a Form 8-K regarding the death of Henry W. Nozko, Sr., the Founder, Chairman, President and Chief Executive Officer of the Corporation. 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 is 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.

On January 25, 2002, the Company filed a Form 8-K regarding certain obligations that are payable from the proceeds of several key-man life insurance policies held by Company. ACMAT Corporation was the beneficiary of approximately $8,800,000 from these life insurance policies.

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, 2002 /S/ Henry W. Nozko, Jr.

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

Date: May 14, 2002 /S/ Michael P. Cifone

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