ACMAT CORP
Form 10-Q
May 15, 2001

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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, 2001

OR

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

Commission file number 0-6234

ACMAT CORPORATION

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, 2001
Common Stock	557,589

Class A Stock	1,843,018

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Part I Financial Information

Item I Financial Statements

ACMAT CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

Assets	March 2001 (Unaudi
Investments:	
Fixed maturities-available for sale at fair value (Cost of $71,220,757 in 2001 and $70,487,764 in 2000)	$ 72,619
Equity securities, at fair value (Cost of $2,060,000 in 2001 and 2,561,512 in 2000)	1,838
Mortgages	278
Short-term investments, at cost which approximates fair value	914
Total investments	75,650
Cash and cash equivalents	10,053
Accrued interest receivable	1,047
Receivables, net	4,038
Reinsurance recoverable	2,606
Prepaid expenses	164
Deferred income taxes	326
Property & equipment, net	12,514
Deferred policy acquisition costs	1,779
Other assets	4,018
Intangibles, net	2,158

	$114,357
Liabilities & Stockholders' Equity	
Accounts payable	2,543
Reserves for losses and loss adjustment expenses	29,110
Unearned premiums	6,495
Collateral held	8,860
Income taxes	66
Accrued liabilities	1,561
Long-term debt	27,288
Total liabilities	75,927
Commitments and contingencies	
Stockholders' Equity:	
Common Stock (No par value; 3,500,000 shares authorized; 557,589 and 557,589 shares issued and outstanding)	557
Class A Stock (No par value; 10,000,000 shares authorized; 1,952,254 and 2,057,254 shares issued and outstanding)	1,952
Retained earnings	35,147
Accumulated other comprehensive income (loss)	773
Total stockholders' equity	38,430
	$114,357

See Notes to Consolidated Financial Statements.

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ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Earnings (Unaudited)
Three Months Ended March 31, 2001 and 2000

	2001	2000
Earned premiums	$2,031,980	2,348,474
Contract revenues	2,664,337	2,512,810
Investment income, net	1,104,185	1,142,554
Net realized capital gains (losses)	22,141	(108,554)
Other income	154,272	186,023
	5,976,915	6,081,307
Cost of contract revenues	2,342,810	2,364,230
Losses and loss adjustment expenses	411,838	441,660
Amortization of policy acquisition costs	357,083	391,679
General and administrative expenses	1,406,592	1,264,548
Interest expense	691,276	746,410

	5,209,599	5,208,527
Earnings before income taxes	767,316	872,780
Income taxes	248,417	262,473
Net earnings	$ 518,899	610,307
Basic Earnings Per Share	$ .21	.21
Diluted Earnings Per Share	$ .20	.21

See Notes to Consolidated Financial Statements.

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity (Unaudited)
March 31, 2001 and 2000

	Common stock par value	Class A stock par value	Additional paid-in capital	Retained earnings
Balance as of December 31, 1999	$584,828	2,304,587	--	35,151,966
Comprehensive income:				
Net unrealized gains on debt and equity securities	--	--	--	--
Net earnings	--	--	--	610,307
Total comprehensive income				
Acquisition and retirement of 14,260 shares of Common Stock	(14,260)	--	--	(256,680)
Acquisition and retirement of 16,060 shares of Class A Stock	--	(16,060)	--	(152,570)
Balance as of March 31, 2000	$570,568	2,288,527	--	35,353,023
Balance as of December 31, 2000	$557,589	2,057,254	--	35,326,305
Comprehensive income:				
Net unrealized gains on debt and equity securities	--	--	--	--
Net earnings	--	--	--	518,899

Total comprehensive income				
Acquisition and retirement of 105,000 shares of Class A Stock		(105,000)	--	(697,500)
Balance as of March 31, 2001	$557,589	1,952,254	--	35,147,704

See Notes to Consolidated Financial Statements.

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Unaudited)
Three Months Ended March 31, 2001 and 2000

	2001
Cash flows from operating activities:	
Net earnings	$ 518,899
Adjustments to reconcile net earnings to net cash provided by (used for) operating activities:	
Depreciation and amortization	405,321
Net realized capital (gains) losses	(22,141)
Changes in:	
Accrued interest receivable	(13,721)
Reinsurance recoverable	(26,314)
Receivables, net	102,321
Deferred policy acquisition costs	(340,950)
Prepaid expenses and other assets	(441,774)
Accounts payable and accrued liabilities	518,749
Cash collateral held	187,077
Reserves for losses and loss adjustment expenses	(200,046)
Income taxes, net	153,141
Unearned premiums	1,052,536
Net cash provided by (used for) operating activities	1,893,097
Cash flows from investing activities:	
Proceeds from investments sold or matured:	
Fixed maturities-sold	7,920,409
Fixed maturities-matured	2,080,000
Equity securities	500,000
Mortgages	10,826
Short-term investments	7,059,565
Purchases of:	
Fixed maturities	(10,848,719)
Short-term investments	(4,724,520)
Capital expenditures	(74,254)
Net cash provided by investing activities	1,923,307
Cash flows from financing activities:	
Repayments on long-term debt	(407,665)

Payments for acquisition & retirement of stock	(802,500)
Net cash used for financing activities	(1,210,165)
Net change in cash and cash equivalents	2,606,239
Cash and cash equivalents at beginning of period	7,446,941
Cash and cash equivalents at end of period	$ 10,053,180

See Notes to Consolidated Financial Statements.

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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, 2000.

(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, 2001 and 2000.

2001:	Earnings	Average Shares Outstanding
Basic EPS:		
Earnings available to stockholders	$518,899	2,527,343
Effect of Dilutive Securities:		
Stock options	--	52,073
Convertible Note		
Diluted EPS:		

Earnings available to stockholders	$518,899	2,579,417
	========	=========
2000:		
Basic EPS:		
Earnings available to stockholders	$610,307	2,860,095
Effect of Dilutive Securities:		
Stock options	--	43,506
	--------	---------
Diluted EPS:		
Earnings available to stockholders	$610,307	2,903,601
	========	=========

The Convertible Notes were anti-dilutive in 2001.

(3) Supplemental Cash Flow Information

Income tax paid during the three months ended March 31, 2001 and 2000 was $95,276 and $27,854, respectively. Interest paid for the three months ended March 31, 2001 and 2000 was $372,402 and $218,234, 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, 2001 and 2000:

Unrealized gains (losses) on investments:	
Unrealized holding gain (loss) arising during period, net of income tax of $641,571 in 2001.	$1
Less reclassification adjustment for gains (losses) included in net income, net of income tax expense (benefit) of $7,528 and ($36,908) for 2001 and 2000, respectively	
	--
Other comprehensive income (loss)	$1
	==

(5) New Accounting Standard

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", was issued in June 1998 and establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, (collectively referred to as derivatives) and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value.

The cumulative effect of adopting FAS 133, as amended, on January 1, 2001 had no effect. There were no derivative transactions during the first quarter of

2001.

(6) 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.

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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, 2001 and 2000 is summarized as follows:

	2001	2000
Revenues:		
ACSTAR Bonding	$ 1,379,589	1,647,636
United Coastal Liability Insurance	1,718,509	1,654,626
ACMAT Contracting	3,710,831	3,602,710
	$ 6,808,929	6,904,972
Operating Earnings:		
ACSTAR Bonding	$ 464,815	710,218
United Coastal Liability Insurance	741,783	688,062
ACMAT Contracting	376,534	329,011
	$ 1,583,132	1,727,291

Depreciation and Amortization:		
ACSTAR Bonding	$ 151,197	133,425
United Coastal Liability Insurance	87,117	102,294
ACMAT Contracting	167,007	181,894
	$ 405,321	417,613
Identifiable Assets:		
ACSTAR Bonding	$ 43,220,493	43,013,935
United Coastal Liability Insurance	54,114,409	61,434,386
ACMAT Contracting	17,023,005	17,215,991
	$114,357,907	121,664,312

The components of revenue for each segment for the three-month periods ended March 31, 2001 and 2000 are as follows:

	2001	2000
ACSTAR Bonding:		
Premiums	$ 982,304	1,284,806
Investment income, net	387,969	344,529
Capital gains	3,750	--
Other	5,566	18,301
	$1,379,589	1,647,636
United Coastal Liability Insurance:		
Premiums	$1,049,676	1,063,668
Investment income, net	649,891	697,522
Capital gains (losses)	18,391	(108,554
Other	551	1,990
	$1,718,509	1,654,626
ACMAT Contracting:		
Contract revenues	$2,664,337	2,512,810
Investment income, net	21,329	33,557
Intersegment revenue:		
Rental income	361,771	339,015
Underwriting services and agency commissions	515,239	551,596
Other	148,155	165,732
	$3,710,831	3,602,710

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

Revenue:	2001	2000
Total revenue for reportable segments	$ 6,808,929	6,904,972
Intersegment eliminations	(832,014)	(823,665
	$ 5,976,915	6,081,307
Operating Earnings:		
Total operating earnings for reportable segments	1,583,132	1,727,291
Interest expense	(691,276)	(746,410
Other operating expenses	(124,540)	(108,101
	$ 767,316	872,780

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.

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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 $518,899 for the three months ended March 31, 2001 compared to $610,307 for the same period a year ago. The decrease in 2001 net earnings compared to the 2000 net earnings was due primarily to a reduction in earned premiums resulting from a new reinsurance treaty effective May 1, 2000. The Company cedes significantly more of its bond exposure than under its previous reinsurance treaty.

Revenues were $5,976,915 for the three months ended March 31, 2001 compared to $6,081,307 for the same period in 2000. The decrease in revenues over the past year reflects the Company's new reinsurance treaty. Earned premiums were $2,031,980 for the three months ended March 31, 2001 compared to $2,348,474 for the same period a year ago. Contract revenue is difficult to predict and depends greatly on the successful securement of contracts bid. Contract revenues were $2,664,337 for the three months ended March 31, 2001 compared to $2,512,810 for the same period a year ago.

Investment income was $1,104,185 compared to $1,142,554 for the same period in 2000. 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 $22,141 for the three months ended March 31, 2001 compared to realized capital losses of $108,554 for the same period a year ago.

Other income was $154,272 for the three months ended March 31, 2001 compared to $186,023 for the same period in 2000.

Losses and loss adjustment expenses were $411,838 for the three months ended March 31, 2001 compared to $441,660 for the same period a year ago. The decrease in losses and loss adjustment expenses are attributable to the decline in earned premiums. Amortization of policy acquisition costs were $357,083 for the three months ended March 31, 2001 compared to $391,679 for the same period in 2000. The decrease in amortization of policy acquisition costs is primarily attributable to the decrease in earned premium.

Costs of contract revenues were $2,342,810 for the three months ended March 31, 2001 compared to $2,364,230 for the same period a year ago. The gross profit margin on construction projects was 12% in 2001 compared to 6% in 2000. Gross margin fluctuations each year based upon the profitability of specific projects.

General and administrative expenses were $1,406,592 for the three months ended March 31, 2001 compared to $1,264,548 for the same period a year ago. The increase in general and administrative expenses in 2001 compared to 2000 is due primarily to an increase in salary expense and an increase in utility costs associated with operating our headquarters.

Interest expense was $691,276 for the three months ended March 31, 2001 compared to $746,410 for the same period in 2000. The decrease in interest expense is due to the decrease in long-term debt.

Income tax expense was $248,417 for the three months ended March 31, 2001 compared to $262,473 for the same period a year ago representing effective tax rates of 32.4% and 30.1%, respectively. The fluctuation in the effective tax rate is primarily due to tax exempt interest income making up a smaller portion of taxable income in 2001.

Results of Operations by Segment:

ACSTAR BONDING:

	2001	2000
Revenue	$1,379,589	1,647,636
Operating Earnings	$ 464,815	710,218

Revenues for the ACSTAR Bonding segment were $1,379,589 for the three months ended March 31, 2001 compared to $1,647,636 for the same period in 2000. Net written premiums were $840,433 for the three months ended March 31, 2001 compared to $1,369,629 for the three months ended March 31, 2000. Earned premiums were $982,304 for the three months ended March 31, 2001 compared to $1,284,806 for the three months ended March 31, 2000.

The net written premiums and earned premiums for the three months ended March 31, 2001 as compared to the three months ended March 31, 2000 reflect the Company's new reinsurance treaty. Effective May 1, 2000, the Company cedes significantly more of its bond exposure than under its previous reinsurance treaties. Such reinsurance is applicable on a per principal basis for losses in excess of $1,000,000 up to $13,000,000. Prior to May 1, 2000, reinsurance was applicable to losses in excess of $2,000,000 on a per bond basis with the Company retaining approximately $5,000,000 of losses up to $13,000,000.

Investment income was $387,969 for the three months ended March 31, 2001 compared to $344,529 for the same period a year ago. The increase in investment income was primarily related to a slight increase in invested assets.

Operating earnings for the ACSTAR Bonding segment were $464,815 for the three months ended March 31, 2001 compared to $710,218 for the same period in 2000. The decrease in 2001 operating earnings compared to 2000 operating earnings is due primarily to a new reinsurance treaty effective May 1, 2000.

Losses and loss adjustment expenses were $96,935 for the three months ended March 31, 2001 compared to $76,200 for the same period a year ago. Amortization of policy acquisition costs were $409,188 for the three months ended March 31, 2001 compared to $465,407 for the same period in 2000.

General and administrative expenses were $408,651 for the three months ended March 31, 2001 compared to $395,811 for the same period a year ago. The increase in general and administrative expenses is due primarily to the increase in salary expense.

UNITED COASTAL LIABILITY INSURANCE:

	2001	2000
Revenue	$1,718,509	1,654,626
Operating Earnings	$ 741,783	688,062

Revenues for the United Coastal Liability Insurance segment were $1,718,509 for the three months ended March 31, 2001 compared to $1,654,626 for the same period in 2000. The 2001 increase in revenue reflects capital gains of $18,391 in 2001 compared to capital losses of $108,554 in 2000. Net written premiums were $1,701,541 for the three months ended March 31, 2001 compared to $1,653,638 for the three months ended March 31, 2000. Earned premiums were $1,049,676 for the three months ended March 31, 2001 compared to $1,063,668 for the three months ended March 31, 2000. The increase in revenues reflect the capital gains in 2001 compared to capital losses in 2000.

Investment income was $649,891 for the three months ended March 31, 2001 compared to $697,522 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 $18,391 for the three months ended March 31, 2001 as compared to realized capital losses of $108,554 for the same period a year ago.

Operating earnings for the United Coastal Liability Insurance segment were $741,783 for the three months ended March 31, 2001 as compared to $688,062 for the same period in 2000. The increase in 2001 operating earnings compared to 2000 operating earnings is due primarily to a decrease in earned premiums and investment income offset in part by a reduction in amortization of policy acquisition costs and losses and loss adjustment expenses.

Losses and loss adjustment expenses were $314,903 for the three months ended March 31, 2001 compared to $365,460 for the same period a year ago. The decrease in losses and loss adjustment expenses are attributable to the decrease in earned premiums. Amortization of policy acquisition costs were $383,901 for the three months ended March 31, 2001 as compared to $326,026 for the same period in 2000. The decrease in amortization of policy acquisition costs is primarily attributable to the decrease in earned premiums.

General and administrative expenses were $277,922 for the three months ended March 31, 2001 compared to $275,078 for the same period a year ago. The decrease in general and administrative expenses is due primarily to the overall decrease in business activities.

ACMAT CONTRACTING:

	2001	2000
Revenue	$3,710,831	3,602,710
Operating Earnings	$ 376,534	329,011

Revenues for the ACMAT Contracting segment were $3,710,831 for the three months ended March 31, 2001 compared to $3,602,710 for the same period in 2000. The 2001 increase in revenue reflects a slight increase in contract revenues compared to 2000. Contract revenue is difficult to predict and depends greatly on the successful securement of contracts bid.

Operating earnings for the ACMAT Contracting segment were $376,534 for the three months ended March 31, 2001 compared to $329,011 for the same period a year ago. The decrease in 2001 operating earnings compared to 2000 operating earnings is due primarily to reduced gross margins on the 2001 projects offset by a decrease in general and administrative expenses.

Cost of contract revenues were $2,342,810 for the three months ended March 31, 2001 compared to $2,364,230 for the same period in 2000. The gross profit margin on construction projects was 12% in 2001 and 6% in 2000. Gross margin fluctuations each year based upon the profitability of specific projects.

General and administrative expenses were $991,487 for the three months ended March 31, 2001 compared to $909,469 for the same period a year ago. The increase in general and administrative expenses in 2001 compared to 2000 is due primarily to an increase in salary expense and an increase in utility costs associated with operating our headquarters.

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, 2001 are adequate to cover the unpaid portion of the ultimate net cost of losses and loss adjustment expenses, including losses incurred but not reported. Reserves for losses and loss adjustment expenses are estimates at any given point in time of what the Company may have to pay ultimately on incurred losses, including related settlement costs, based on facts and circumstances then known. The Company also reviews its 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 20.3 % and 18.8% for the three-month periods ended March 31, 2001 and 2000, respectively. These loss ratios are below industry averages and are believed to be the result of conservative underwriting. There can be no assurance that such loss ratios can continue. The Company's insurance subsidiaries' expense ratios under GAAP were 72.8% and 60.6% for the three-month period ended March 31, 2001 and 2000, respectively. The Company's insurance subsidiaries' combined ratios under GAAP were 93.1% and 79.4% for the three-month period ended March 31, 2001 and 2000, respectively. The increase in the 2001 combined ratio results primarily from the decrease in earned premiums.

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.

The Company provided cash flow from operations of $1,893,097 for the three-month period ended March 31, 2001 compared to the cash flow used for operations of $1,626,442 for the same period in 2000. Net cash flows provided from operations in 2001 were provided primarily from premiums written. 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 2001 amounted to $1,923,307 compared to $1,223,928 for the same period in 2000. 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, 2001.

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, 2001.

During the three-month period ended March 31, 2001, the Company purchased, in the open market and privately negotiated transactions, 105,000 shares of its Class A Stock at an average price of $7.64 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 $6,900,000 in 2001.

REGULATORY ENVIRONMENT

Risk-based capital requirements are used as early warning tools by the National Association of Insurance Commissioners and the states to identify companies that require further regulatory action. The ratio for each of the Company's insurance subsidiaries as of March 31, 2001 was above the level which might require regulatory action.

Part II - Other Information

Item 6 - Exhibits and Reports on Form 8-K

a. Exhibits - None

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, 2001 /S/ Henry W. Nozko, Sr.

Henry W. Nozko, Sr., President and Chairman

Date: May 14, 2001 /S/ Henry W. Nozko, Jr.

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

Date: May 14, 2001 /S/ Michael P. Cifone

Michael P. Cifone, Vice President - Finance
(Principal Financial & Accounting Officer)