FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1996-11-14** | Period of Report: **1996-09-30**
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ACMAT CORP

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SIC: **6351** Surety insurance

Mailing Address
233 MAIN STREET
P O BOX 2350
NEW BRITAIN CT 06050-2350

Business Address
233 MAIN ST
P O BOX 2350
NEW BRITAIN CT 06050-2350
2032299000

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

[x] QUARTERLY REPORT PURSUANT TO SECTION 13 OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 1996
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)

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

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

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

Yes X No

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

Title of Class	Shares outstanding at October 31, 1996
Common Stock	602,807
Class A Stock	3,586,632

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Part II OTHER INFORMATION

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Part I Financial Information
Item I Financial Statements

ACMAT CORPORATION AND SUBSIDIARIES
Financial Statements
Consolidated Balance Sheets

<TABLE>
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Assets	September 30, 1996	December 31, 1995
<S>	<C>	<C>
Investments:		
Fixed maturities-available for sale, at market (Cost of 125,410,203 in 1996 and 121,612,706 in 1995)	$125,608,039	122,387,491
Equity securities, at market value (Cost $255,262 in 1996 and $20,000 in 1995)	280,262	20,000
Limited partnership investment, at market value (Cost $1,108,995 in 1996 and $1,120,354 in 1995)	1,539,365	1,641,763
Short-term investments, at cost which approximates market	12,399,577	8,359,047
Total investments	139,827,243	132,408,301
Cash	7,161,060	5,120,375
Accrued interest receivable	1,808,462	2,230,988
Reinsurance recoverable	3,771,686	3,872,099
Receivables, net	10,187,806	9,022,434
Federal income tax recoverable	-	233,572
Prepaid expenses	363,595	178,965
Deferred income taxes	2,371,960	1,971,148
Property & equipment, net	13,679,272	13,987,256
Deferred policy acquisition costs	3,311,606	3,459,308
Other assets	3,339,320	3,869,028
Intangibles, net	3,594,591	4,048,764
	$189,416,601	180,402,238
Liabilities & Stockholders' Equity		
Notes payable to banks	$ 12,700,000	7,500,000
Accounts payable	2,148,360	2,189,645
Reserves for losses and loss adjustment expenses	47,958,737	45,235,311
Unearned premiums	13,747,193	14,302,613
Collateral held	20,969,173	17,767,955
Accrued liabilities	2,313,481	1,861,815
Income taxes	359,534	-
Long-term debt	36,752,205	40,127,590
Total liabilities	136,948,683	128,984,929
Minority interests	-	13,830,050
Stockholders' Equity:		
Common Stock (No Par Value; 3,500,000 Shares Authorized; 614,807 and 642,464 Shares Issued and Outstanding)	614,807	642,464
Class A Stock (No Par Value; 10,000,000 Shares Authorized; 3,727,283 and 2,665,836 Shares Issued and Outstanding)	3,727,283	2,665,836
Additional paid-in capital	12,219,957	1,921,100
Retained earnings	35,474,200	31,601,383

Net unrealized gain on securities	431,671	756,476
Total stockholders' equity	52,467,918	37,587,259
	$189,416,601	180,402,238

</TABLE>

See Notes to Consolidated Financial Statements.

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Earnings

<TABLE>
<CAPTION>

	Three months ended, September 30,		Nine months ended September 30,	
	1996	1995	1996	1995
<S>	<C>	<C>	<C>	<C>
Earned premiums	$ 5,192,105	6,190,342	15,499,937	18,238,575
Contract revenues	2,702,168	3,280,366	7,392,586	9,022,314
Investment income, net	1,619,391	1,531,607	4,846,006	4,471,058
Net realized capital gains (losses)	1,870	(20,179)	6,482	(27,879)
Other income	142,708	158,502	455,531	529,878
	9,658,242	11,140,638	28,200,542	32,233,946
Losses and loss adjustment expenses	1,560,632	1,847,000	4,652,981	5,511,015
Amortization of policy acquisition costs	986,314	1,097,789	2,675,251	3,167,319
Cost of contract revenues	2,300,926	2,990,986	6,669,159	8,442,970
Selling, general and administrative expenses	1,390,840	1,539,128	4,098,693	4,452,432
Interest expense	1,205,593	1,193,257	3,748,891	3,605,830
	7,444,305	8,668,160	21,844,975	25,179,566
Earnings before income taxes and minority interests	2,213,937	2,472,478	6,355,567	7,054,380
Income taxes				
Federal	544,320	621,196	1,509,610	1,788,906
State	15,000	35,000	85,000	105,000
	559,320	656,196	1,594,610	1,893,906
Earnings before minority interests	1,654,617	1,816,282	4,760,957	5,160,474
Minority interests	(252,245)	(356,425)	(888,140)	(1,048,223)
Net earnings	$ 1,402,372	1,459,857	3,872,817	4,112,251
Net earnings per share and share equivalent	$ .39	.42	1.16	1.10
Net earnings per share - assuming full dilution	$ .32	.32	.93	.88
Weighted average shares outstanding	3,561,441	3,512,357	3,335,472	3,750,600

</TABLE>

See Notes to Consolidated Financial Statements.

ACMAT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

<TABLE>
<CAPTION>

<S>	Common stock par value <C>	Class A stock par value <C>	Additional paid-in capital <C>	Retained earnings <C>
Balance as of December 31, 1994	$ 652,920	$ 3,313,067	$ 9,358,948	$ 26,251,103
Acquisition and retirement of 5,456 Shares of Common Stock	(5,456)	---	(80,579)	---
Acquisition and retirement of 627,116 Shares of Class A Stock	---	(627,116)	(6,701,741)	---
Issuance of 99,998 Shares of Class A Stock	---	99,998	899,982	---
Net Unrealized Appreciation of Debt and Equity Securities	---	---	---	---
Net Earnings	---	---	---	4,112,251
Balance as of September 30, 1995	$ 647,464	$ 2,785,949	$ 3,476,610	$ 30,363,354
Balance as of December 31, 1995	$ 642,464	$ 2,665,836	$ 1,921,100	$ 31,601,383
Acquisition and Retirement of 27,657 Shares of Common Stock	(27,657)	---	(475,891)	---
Acquisition and Retirement of 509,552 Shares of Class A Stock	---	(509,552)	(6,093,773)	---
Issuance of 449,999 Shares of Class A Stock	---	449,999	4,049,991	---
Issuance of 10,000 Shares of Class A Stock pursuant to stock options	---	10,000	50,000	---
Issuance of 1,110,000 Shares of Class A Stock	---	1,111,000	12,984,812	---
Net Unrealized Losses on Debt and Equity Securities, net of taxes	---	---	---	---
Other	---	---	(216,282)	---
Net Earnings	---	---	---	3,872,817
Balance as of September 30, 1996	$ 614,807	$ 3,727,283	$ 12,219,957	$ 35,474,200

</TABLE>

<TABLE>
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	Net unrealized gains (losses) on securities	Total stockholders' equity

Balance as of December 31, 1994	$ (1,571,103)	$ 38,004,935
Acquisition and retirement of 5,456 Shares of Common Stock	---	(86,035)
Acquisition and retirement of 627,116 Shares of Class A Stock	---	(7,328,857)
Issuance of 99,998 Shares of Class A Stock	---	999,980
Net Unrealized Appreciation of Debt and Equity Securities, net of taxes	2,659,280	2,659,280
Net Earnings	---	4,112,251
Balance as of September 30, 1995	$ 1,088,177	$ 38,361,554
Balance as of December 31, 1995	$ 756,476	$ 37,587,259
Acquisition and Retirement of 27,657 Shares of Common Stock	---	(503,548)
Acquisition and Retirement of 509,552 Shares of Class A Stock	---	(6,603,325)
Issuance of 449,999 Shares of Class A Stock	---	4,499,990
Issuance of 10,000 Shares of Class A Stock pursuant to stock options	---	60,000
Issuance of 1,110,000 Shares of Class A Stock	---	14,095,812
Net Unrealized Losses on Debt and Equity Securities	(324,805)	(324,805)
Other	---	(216,282)
Net Earnings	---	3,872,817
Balance as of September 30, 1996	$ 431,671	$ 52,467,918

</TABLE>

See Notes to Consolidated Financial Statements.

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Nine Months Ended September 30, 1996 and 1995

<TABLE>
<CAPTION>

	1996	1995
Cash flows from operating activities:		
Net earnings	$ 3,872,817	4,112,251
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	1,352,181	1,658,991
Minority interests	888,140	1,048,223

Net realized capital (gains) losses	(6,482)	27,879
Changes in:		
Accrued interest receivable	422,526	(316,679)
Reinsurance recoverable	100,413	622,037
Receivables, net	(1,165,372)	260,225
Deferred policy acquisition costs	147,702	158,845
Prepaid expenses and other assets	290,457	(66,428)
Accounts payable and accrued liabilities	410,381	1,051,837
Collateral held	3,201,218	4,806,214
Reserves for losses and loss adjustment expenses	2,723,426	3,182,090
Income taxes, net	560,438	(420,730)
Unearned premiums	(555,420)	(903,193)
Net cash provided by operating activities	12,242,425	15,221,562
Cash flows from investing activities:		
Proceeds from investments sold or matured:		
Fixed maturities-sold	9,850,087	8,788,372
Fixed maturities-matured	45,916,500	38,525,426
Equity securities	20,000	614,340
Purchases of:		
Fixed maturities	(60,174,802)	(60,773,475)
Equity securities	(255,262)	-
Limited Partnership Investment	11,360	(51,397)
Short-term investments, net	(4,040,530)	3,040,120
Costs associated with merger of United Coasts	(280,522)	-
Capital expenditures	(126,386)	(136,341)
Net cash used for investing activities	(9,079,555)	(9,992,955)
Cash flows from financing activities:		
Borrowings under line of credit	8,700,000	1,700,000
Payments under line of credit	(3,500,000)	-
Payments on long-term debt	(1,375,395)	(1,557,569)
Issuance of long-term debt	2,500,000	-
Issuance of Class A Stock	60,000	-
Payments for subsidiary stock	(399,917)	(35,000)
Payments for acquisition & retirement of stock	(7,106,873)	(7,414,892)
Net cash used for financing activities	(1,122,185)	(7,307,461)
Net increase (decrease) in cash	2,040,685	(2,078,854)
Cash at beginning of period	5,120,375	5,471,148
Cash at end of period	$ 7,161,060	3,392,294

</TABLE>

See Notes to Consolidated Financial Statements.

ACMAT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS:

(1) Financial Statements

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

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

These statements should be read in conjunction with the financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 1995.

(2) Earnings Per Share

The earnings per share and share equivalent for the nine month periods were computed by dividing net earnings by the weighted average number of Common and Class A shares outstanding for the period and includes the common stock equivalency of outstanding options, if dilutive. The number of shares was also increased by the number of shares issuable on the exercise of options when the market price of the stock exceeded the exercise price of the option. This increase in the number of shares was reduced by the number of shares which are assumed to have been purchased with the proceeds from the exercise of the option; these purchases were assumed to have been made at the average price of the common stock during that part of the period when the market price of the common stock exceeded the exercise price of the option.

Earnings per share - assuming full dilution was determined on the assumptions that the convertible notes were converted and the options were exercised at the beginning of the period. As to the debentures, net earnings were adjusted for the interest expense, net of its tax effect. As to the options, outstanding shares were increased as described above, except that purchases were assumed to have been made at the period-end price of the shares as it was higher than the average price during the period.

(3) Supplemental Cash Flow Information

Income taxes paid during the nine months ended September 30, 1996 and 1995 was $1,034,172 and $2,314,635, respectively, and interest paid for the nine months ended September 30, 1996 and 1995 was $3,315,349 and $3,113,161, respectively.

During the first nine months of 1996 and 1995, the Company issued 449,999 and 99,998 shares, respectively, of Class A Stock at $10 per share pursuant to the conversion options of the Convertible Senior Notes to AIG Life Insurance Company and American International Life Assurance Company of New York. The issuance of stock pursuant to the conversion option of the Convertible Senior Notes is a non-cash transaction that is not reflected in the Statements of Cash Flows.

(4) Merger with United Coasts Corporation

Effective September 16, 1996, the Company completed the merger of United Coasts Corporation into ACMAT. United Coasts Corporation shareholders received one share of ACMAT Class A stock for each approximately 1.536 shares of United Coasts Corporation stock. As a result of the merger, ACMAT issued approximately 1,100,000 shares of its Class A stock amounting to a purchase price of approximately $14 million for the 16% minority interest in the insurance holding company subsidiary. As a result, United Coastal Insurance Company, formerly a subsidiary of United Coasts, has become a wholly-owned subsidiary of ACMAT and its affiliates. The merger is a non-cash transaction that is not reflected in the Statements of Cash Flows.

The merger of United Coasts into ACMAT has been accounted for by the purchase method and, accordingly, the purchase price was allocated to the net assets of United Coasts based on the fair value of the assets purchased and liabilities assumed on September 16, 1996.

The following table presents the pro forma results of operations as if the merger of United Coasts had been consummated at the beginning of the periods presented. These pro forma results have been prepared for comparative purposes only and are not necessarily indicative of the actual results of operations that would have occurred had the merger actually been made at the beginning of the periods presented, or of results which may occur in the future.

<TABLE>
<CAPTION>

	Three months ended September 30,		Nine months ended September 30,	
	1996	1995	1996	1995
<S>	<C>	<C>	<C>	<C>
Revenues	$9,658,242	11,140,638	28,200,542	32,233,946
Net earnings	$1,654,617	1,816,282	4,760,957	5,160,474
Net earnings per share and share equivalent	.37	.39	1.08	1.06

Net earnings per share -- assuming full dilution	.31	.32	.91	.89

</TABLE>

(5) Application of New Accounting Standards

Effective January 1, 1996, the Company adopted Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" (FAS 121). This statement establishes accounting standards for the impairment of long-lived assets and certain identifiable intangibles to be disposed of. This statement requires a write down to fair value when long-lived assets to be held and used are impaired. The adoption of this statement did not have any effect on results of operations, financial condition or liquidity as no adjustments were required.

Also, effective January 1, 1996 the Company adopted Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (FAS 123). This statement addresses alternative accounting treatments for stock-based compensation, such as stock options and restricted stock. FAS 123 permits disclosing in the financial statement footnotes the proforma impact to net earnings as if the value of stock-based compensation awards had been expensed. The value of awards are measured at the grant date based upon estimated fair value, using option pricing models. The Company has selected the alternative method which provides for pro forma disclosure in the footnotes to the year-end financial statements only.

ACMAT CORPORATION

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

RESULTS OF OPERATIONS:

Overview

Net earnings were $1,402,372 for the three months ended September 30, 1996 compared to $1,459,857 for the same period a year ago. Net earnings for the nine months ended September 30, 1996 were $3,872,817 compared to $4,112,251 for the nine months ended September 30, 1995. The decrease in net earnings for the three and nine month periods is a result of a decrease in earned premiums and contract revenues partially offset by an increase in investment income.

Earned Premiums

Net written premiums were $4,538,447 for the three months ended September 30, 1996 compared to $5,237,706 for the three months ended September 30, 1995. Net written premiums for the nine months ended September 30, 1996 were $15,009,830 compared to $17,801,329 for the nine months ended September 30, 1995. Premiums earned for the three months ended September 30, 1996 were $5,192,105 as compared to $6,190,342 for the three months ended September 30, 1995. Premiums earned for the nine months ended September 30, 1996 were $15,499,937 as compared to $18,238,575 for the nine months ended September 30, 1995. The decrease in net written premiums and earned premiums for the three and nine-month periods ended September 30, 1996 compared to the same periods in 1995 is primarily due to a continuing soft insurance market place. Variances in net written premiums have historically occurred due to the fluctuations in size, number and timing of bonds and policies bound by the Company. The Company will maintain its existing pricing strategy and high level of service.

Contract Revenues

Contract revenues decreased to $2,702,168 for the three-month period ended September 30, 1996 compared to $3,280,366 for the same period in 1995. Contract revenues decreased to $7,392,586 for the nine-month period ended September 30, 1996 compared to $9,022,314 for the same period in 1995. During the past several years, the Company has focused on more profitable projects. Construction revenue is difficult to predict and depends greatly on the successful securement of contracts bid.

Investment Income, Net

Net investment income was $1,619,391 for the three-month period ended September 30, 1996 compared to $1,531,607 for the same period in 1995, representing effective yields of 4.46% and 4.59%, respectively. Net investment income was $4,846,006 for the nine-month period ended September 30, 1996 compared to $4,471,058 for the same period in 1995, representing effective yields of 4.55% and 4.60%, respectively. The increase in investment income for 1996 over 1995 was due substantially to an increase in total invested assets. Invested assets, including cash, were $146,988,303 and $137,528,676 at September 30, 1996 and December 31, 1995, respectively. The increase in invested assets is attributable to net cash flow generated by written premiums, cash collateral and the reinvestment of investment income offset by the repayment of debt and the repurchase of stock.

Net Realized Capital Gains

Realized capital gains were $1,870 for the three-month period ended September 30, 1996 compared to realized capital losses of $20,179 for the same period in 1995. Realized capital gains in the nine-month period ended September 30, 1996 were $6,482 compared to realized capital losses of $27,879 for the same period in 1995.

Cost of Contract Revenues

Cost of contract revenues were $2,300,954 for the three-month period ended September 30, 1996 compared to $2,990,986 for the same period a year ago. Cost of contract revenues were $6,669,187 for the nine-month period ended September 30, 1996 compared to $8,442,970 for the same period in 1995. Costs of contract revenues vary from period to period as a

function of contract revenues (See Contract Revenues). The Company's construction backlog was approximately $5,800,000 at September 30, 1996 compared to $3,150,000 a year ago.

Losses and Loss Adjustment Expenses

Losses and loss adjustment expenses were $1,560,632 for the three-month period ended September 30, 1996 compared to $1,847,000 for the same period in 1995. Losses and loss adjustment expenses were $4,652,981 for the nine months ended September 30, 1996 compared to $5,511,015 for the nine months ended September 30, 1995. The decrease in losses and loss adjustment expenses for the three and nine months ended September 30, 1996 are attributable to the decline in earned premiums from 1995 to 1996 without any fluctuations in the loss ratios. Losses and loss adjustment expense reserves represent management's estimate of the ultimate cost of unpaid losses incurred for these periods relative to premiums earned.

Amortization of policy acquisition costs

Amortization of policy acquisition costs was $986,314 for the three-month period ended September 30, 1996 as compared to $1,097,789 for the same period in 1995. For the nine months ended September 30, 1996, amortization of policy acquisition cost was $2,675,251 compared to $3,167,319 for the same period a year ago. Policy acquisition costs, primarily commissions, are deferred and amortized over the policy term. The Company's acquisition expense ratio increased to 42.9% in 1996 from 40.4% in 1995 due primarily to a decrease in earned premiums.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were $1,390,840 for the three-month period ended September 30, 1996 compared to $1,539,128 for the same period in 1995. Selling, general and administrative expenses were $4,098,693 for the nine-month period ended September 30, 1996 compared to $4,452,432 for the same period in 1995. The decrease in the selling, general and administrative expenses during the three and nine-month periods ended September 30, 1996 is due primarily to a decrease in salary expense.

Interest Expense

Interest expense increased to $1,205,593 for the three-month period ended September 30, 1996 compared to $1,193,257 for the same period in 1995. Interest expense increased to $3,748,891 for the nine-month period ended September 30, 1996 compared to $3,605,830 for the same period in 1995.

Income Taxes

Income tax expense was $559,320 for the three-month period ended September 30, 1996 compared to $656,196 for the same period in 1995, representing effective tax rates of 25.3% and 26.5%, respectively. Income tax expense was $1,594,610 for the nine-month period ended September 30, 1996 compared to $1,893,906 for the same period in 1995, representing effective Federal tax rates of 25.1% and 26.8%, respectively. The effective tax rate for fluctuates according to the mix of tax-exempt and taxable securities held by the Company.

RESERVES FOR LOSSES AND LOSS ADJUSTMENT EXPENSES:

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

Management believes that the reserves for losses and loss adjustment expenses at September 30, 1996 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.

The Company's insurance subsidiaries' loss ratio under generally accepted accounting principles ("GAAP") were 30.0% and 29.9% for the nine-month periods ended September 30, 1996 and 1995, 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 42.9% and 40.4% for the nine-month period ended September 30, 1996 and 1995, respectively. The Company's insurance subsidiaries' combined ratios under GAAP were 72.9% and 70.3% for the nine-month period ended September 30, 1996 and 1995, respectively.

LIQUIDITY AND CAPITAL RESOURCES:

The Company generates sufficient funds from its operations and maintains a relatively high degree of liquidity in its investment portfolio. The primary source of funds to meet the demands of claim settlements and operating expenses are premium collections, investment earnings and maturing investments. As of September 30, 1996, the Company had no material commitments for capital expenditures and, in the opinion of management of the Company, the Company currently 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 operating losses in its construction contracting operations and interest expense related to notes payable and long-term debt incurred by it to acquire and capitalize its insurance subsidiaries. ACMAT has also incurred negative working capital as a result of holding short-term debt related to its operations.

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 and its construction contracting operations. On a long-term basis, ACMAT could rely, if necessary, on dividends from its insurance companies to improve its working capital. The Company anticipates that internally generated funds and short-term borrowings will be utilized for repayment of long-term debt and stock repurchases.

The Company realized cash flow from operations of $12,242,425 for the nine-month period ended September 30, 1996, compared to $15,221,542 for the same period in 1995. Net cash flows provided by operations in 1996 were derived principally from premium collections and receipt of collateral held.

Purchases of investments are made based upon excess cash available after the payment of losses and loss adjustment expenses and other operating and non-operating expenses. The Company's short term investment strategy coincides with the relatively short maturity of its liabilities which are comprised primarily of reserves for losses covered by claims-made insurance policies, reserves related to surety bonds and collateral held for surety obligations.

Net cash used for investing activities in 1996 amounted to $9,079,555, compared to net cash used for investing activities of $9,992,955 for the same period in 1995.

The terms of the Company's note agreements contain limitations on payment of cash dividends, re-acquisition of shares, borrowings and investments and require maintenance of specified ratios and minimum net worth levels, including cross default provisions. The Company is prohibited from paying any dividend prior to July 1, 1997. 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 September 30, 1996, except for the limitation on the reacquisition of shares which exceeded the Available Fund at September 30, 1996. The Company does not consider this a significant event of default and expects to receive a waiver from the note holders.

The Company maintains two short-term unsecured bank credit lines totaling $17.5 million to fund interim cash requirements. There was $12,700,000 outstanding under these lines of credit at September 30, 1996.

During the nine-month period ended September 30, 1996, the Company purchased, on the open market and in privately negotiated transactions, 27,657 shares of its Common Stock at an average price of $18.21. The Company also purchased, in open market and privately negotiated transactions, 509,552 shares of its Class A Stock at an average price of $12.96 per share.

The Company's principal source of cash for repayment of long-term debt is dividends from ACSTAR Holdings and United Coastal Insurance Company. 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 insurance department approval, are limited to approximately $6,600,000 in 1996.

REGULATORY ENVIRONMENT

Risk-based capital requirements are used as early warning tools by the National Association of Insurance Commissioners and the states to identify Companies that require further regulatory action. The ratio for each of the Company's insurance subsidiaries as of September 30, 1996 was significantly above the level which might require regulatory action.

Part II - Other Information

Item 4 - Submission of Matters to a Vote of Security Holders

a. The Annual Meeting of Stockholders of ACMAT Corporation was held on Thursday, July 11, 1996

b. Directors elected at the meeting:

<TABLE>
<CAPTION>

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Henry Nozko, Sr.	795,634	130	0
Henry Nozko, Jr.	795,584	180	0
Victoria Nozko	795,414	350	0
John Creasy	795,424	340	0
Michael Sullivan	795,144	620	0

</TABLE>

c. Other matters voted upon:

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<S>	For <C>	Against <C>	Abstain <C>	Brokers Non-Votes <C>
1. Appointment of Independent Auditors	795,949	165	50	0

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Item 6 - Exhibits and Reports on Form 8-K

a. Exhibits -
   27. Financial Data Schedule

b. Report on Form 8-K - None

SIGNATURES

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

ACMAT CORPORATION

Date: November 14, 1996 /s/ Henry W. Nozko, Sr.

Henry W. Nozko, Sr., President and Chairman

Date: November 14, 1996 /s/ Henry W. Nozko, Jr.

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

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