

AMERICAN PHYSICIANS SERVICE GROUP INC
Form 10QSB
August 14, 2003

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON D.C. 20549

FORM 10-QSB

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE
SECURITIES EXCHANGE ACT OF 1934 FOR THE PERIOD ENDED
JUNE 30, 2003

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 0-11453

AMERICAN PHYSICIANS SERVICE GROUP, INC.
(Exact name of registrant as specified in its charter)

TEXAS
(State or other jurisdiction of
incorporation or organization)

75-1458323
(I.R.S. Employer
identification No.)

1301 CAPITAL OF TEXAS HIGHWAY AUSTIN, TEXAS
(Address of principal executive offices)

78746
(Zip Code)

(512) 328-0888
(Registrant's telephone number, including area code)

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 such filing requirements for the past 90 days.

YES X NO
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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

TITLE OF EACH CLASS -----	NUMBER OF SHARES OUTSTANDING AT July 31, 2003 -----
Common Stock, \$.10 par value	2,147,130

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PART I

FINANCIAL INFORMATION

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AMERICAN PHYSICIANS SERVICE GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

Item 1 - Financial Statements

(In thousands)

	Three Months Ended June 30,	
	2003	2002
	-----	-----
Revenues:		
Financial services	\$4,779	\$3,201
Insurance services	2,167	2,241
Consulting	773	903
	-----	-----
Total revenue	7,719	6,345
Expenses:		
Financial services	4,063	2,797
Insurance services	1,703	1,643
Consulting	616	730
General and administrative	458	318
(Gain) loss on sale of assets (Note 4)	(6)	60
	-----	-----
Total expenses	6,834	5,548
	-----	-----
Operating income	885	797
(Gain) loss on sale of investments (Note 4)	74	(10)
Earnings from operations before interest, income taxes, minority interests and equity in unconsolidated affiliates	959	787
Interest income	75	6
Interest expense	1	3
Income tax expense	380	283
Minority interests (Note 10)	204	58
Equity in gain (loss) loss of unconsolidated affiliates (Note 5)	235	--

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Net earnings	\$684	\$449
	=====	=====

See accompanying notes to consolidated financial statements.

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AMERICAN PHYSICIANS SERVICE GROUP, INC.
CONSOLIDATED STATEMENT OF EARNINGS PER SHARE (UNAUDITED)

(In thousands, except per share amounts)

	Three Months Ended June 30,	
	----- 2003 -----	----- 2002 -----
Earnings per common share		
Basic:		
Earnings from operations	\$0.32	\$0.20
Net earnings	\$0.32	\$0.20
	=====	=====
Diluted:		
Earnings from operations	\$0.30	\$0.19
Net earnings	\$0.30	\$0.19
	=====	=====
Basic weighted average shares outstanding	2,138	2,254
	=====	=====
Diluted weighted average shares outstanding	2,269	2,402
	=====	=====

See accompanying notes to consolidated financial statements.

AMERICAN PHYSICIANS SERVICE GROUP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	June 30, 2003	Dece
	-----	-----
	(Unaudited)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$6,173	
Trading account securities	103	
Trade receivables, net	605	
Notes receivable - current	650	
Management fees and other receivables	510	
Deposit with clearing organization	500	
Receivable from clearing organization	70	
Investment in available-for-sale fixed income securities - current	--	
Income tax receivable	269	
Deferred tax asset - current	42	
Prepaid expenses and other	591	

Total current assets	9,513	
Notes receivable, less current portion	163	
Property and equipment, net	456	
Investment in available-for-sale equity securities (Notes 5 and 6)	9,190	
Investment in available-for-sale fixed income securities - non-current	874	
Net deferred income tax asset - non-current	2,229	
Other assets	195	

Total Assets	\$22,620	
	=====	

See accompanying notes to consolidated financial statements.

AMERICAN PHYSICIANS SERVICE GROUP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS, continued

(In thousands, except share data)

June 30,

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2003

(Unaudited)

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Accounts payable - trade	\$537
Payable to clearing broker	77
Accrued incentive compensation	1,209
Accrued expenses and other liabilities (Note 7)	1,330
Deferred gain - current	487
Deferred tax liability - current	--

Total current liabilities	3,640
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Payable under loan participation agreements	259
Deferred gain - non-current	1,495

Total liabilities	5,394
-------------------	-------

Minority interests (Note 10)	807
------------------------------	-----

Shareholders' Equity:

Preferred stock, \$1.00 par value, 1,000,000 shares authorized, none issued or outstanding	--
Common stock, \$0.10 par value, shares authorized 20,000,000; 2,147,130 issued and outstanding at 06/30/03 and 2,133,843 at 12/31/02	215
Additional paid-in capital	5,662
Retained earnings	10,726
Accumulated other comprehensive income (loss), net of taxes	(120)
Treasury stock	(64)

Total shareholders' equity	16,419

Total Liabilities and Shareholders' Equity	\$22,620
	=====

See accompanying notes to consolidated financial statements.

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AMERICAN PHYSICIANS SERVICE GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands)

Six Months End

2003

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Cash flows from operating activities:

Net income	\$1,236
Adjustments to reconcile net income to cash used in operating activities:	
Depreciation and amortization	114
Forgiveness of debt and other	83
Minority interest in consolidated earnings	537
Undistributed (gain) loss of affiliates	(235)
Gain on sale of assets	(252)
Gain on sale of investment	(89)
Provision for bad debt	6
Changes in operating assets and liabilities:	
Trade receivables	(151)
Trading account securities	30
Income tax receivable	222
Deferred income taxes	113
Receivable from clearing organization	7
Management fees & other receivables	253
Prepaid expenses & other assets	82
Trade accounts payable	(202)
Accrued expenses & other liabilities	(492)
Net cash used in operating activities	1,262
Cash flows from investing activities:	
Capital expenditures	(185)
Proceeds from the sale of available-for-sale equity and fixed income securities	4,038
Purchase of available-for-sale equity securities	(5,697)
Receipts from (advances to) affiliate	150
Funds loaned to others	(150)
Collection of notes receivable	263
Net cash (used in) provided by investing activities	(1,581)
Cash flows from financing activities:	
Payment of long term debt	--
Exercise of stock options	80
Purchase and cancellation of treasury stock	(89)
Distribution to minority interest	(190)
Net cash used in financing activities	(199)
Net change in cash and cash equivalents	(\$518)
Cash and cash equivalents at beginning of period	6,691
Cash and cash equivalents at end of period	\$6,173

See accompanying notes to consolidated financial statements.

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For the six months ended June 30, 2002 and 2003

(In thousands)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Comprehensive Income (loss)	Accum Ot Compre Income

Balance December 31, 2001					
(audited)	\$ 275	\$ 5,539	\$ 8,310		\$

Comprehensive income:					
Net income	--	--	3,051	\$ 3,051	
Other comprehensive income:					
Unrealized gain on securities, net of taxes of \$1,843	--	--	--	3,402	3

Comprehensive income	--	--	--	\$ 6,453	
				=====	
Treasury stock purchase	--	--	--	--	
Cancelled treasury stock	(54)	--	(1,856)	--	
Stock options exercised	1	16	--	--	
Stock options expensed	--	24	--	--	

Balance June 30, 2002					
(unaudited)	\$ 222	\$ 5,578	\$ 9,504	\$ --	\$
=====					

Balance December 31, 2002 (audited)	\$ 213	\$ 5,584	\$ 9,515		\$

Comprehensive income:					
Net income	--	--	1,236	\$ 1,236	
Other comprehensive income:					
Unrealized loss on securities, net of taxes of \$1,005	--	--	--	(1,950)	

Comprehensive loss	--	--	--	\$ (714)	
				=====	
Treasury stock purchases	--	--	--		
Cancelled treasury stock	--	--	(25)		
Stock options exercised	2	78	--	--	

Balance June 30, 2003 (unaudited)	\$ 215	\$ 5,662	\$10,726	\$ --	
=====					

See accompanying notes to consolidated financial statements.

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June 30, 2003
(Unaudited)

1. GENERAL

The accompanying unaudited consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. The consolidated financial statements for the three months ended June 30, 2003 and 2002 reflect all adjustments which are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations and cash flows for the periods presented. Such adjustments consist of only items of a normal recurring nature. These consolidated financial statements have not been audited by our independent certified public accountants. The operating results for the interim periods are not necessarily indicative of results for the full fiscal year.

The notes to consolidated financial statements appearing in our Annual Report on Form 10-KSB for the year ended December 31, 2002 filed with the Securities Exchange Commission should be read in conjunction with this Quarterly Report on Form 10-QSB. There have been no significant changes in the information reported in those notes other than from normal business activities.

Certain reclassifications have been made to amounts in prior periods to be consistent with the 2003 presentation.

2. MANAGEMENT'S ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. CONTINGENCIES

We have extended various subordinated lines of credit to Uncommon Care totaling \$4.46 million with interest rates ranging between 10% and 12%. At June 30, 2003, Uncommon Care was not in compliance with its senior loan covenants. Uncommon Care's senior lender has several options ranging from renegotiating new loan terms to seizing collateral, thus forcing Uncommon Care into bankruptcy. Although Uncommon Care was able to secure refinance funds from a third

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party lender on some of its properties in April, 2003, they are still not in compliance with bank covenants and it is unknown as of the date of this report what action the lender may take. Uncommon Care has not paid us interest due on their note since June, 2001. Uncommon Care's management has been informed by us that we will not advance them additional funds. (See Note 5 to these consolidated financial statements).

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We have extended a line of credit to APS Consulting. See Note 10 to these consolidated financial statements.

We are involved in various claims and legal actions that have arisen in the ordinary course of business. Management believes that any liabilities arising from these actions will not have a significant adverse effect on our financial condition or results of operations.

4. GAIN RECOGNITION

During the six months ended June 30, 2003, we received proceeds of approximately \$3,580,000 and recognized a gain of \$89,000 resulting from the sale of available-for-sale fixed income and equity securities.

Additionally, we recognized \$244,000 of deferred gain related to the November 2001 sale and subsequent leaseback of real estate to Prime Medical. Due to our continuing involvement in the property, we deferred recognizing approximately \$2.4 million of the approximately \$5.1 million gain and are recognizing it in earnings, as a reduction of rent expense, monthly through November 2006. In addition, 15% of the gain (\$0.76 million) related to our then 15% ownership in the purchaser, was deferred. As our ownership percentage in Prime declines through our sales of Prime common stock, we recognize these gains proportionately to our reduction of our interest in Prime. During the first six months of 2003, we recognized \$8,000 of these deferred gains.

5. EQUITY IN EARNINGS OF UNCONSOLIDATED AFFILIATES

At June 30, 2003 we owned approximately 4% (728,000 shares) of the outstanding common stock of Prime Medical. Our ownership percentage was reduced during 2002 when we sold 1,570,000 shares of Prime Medical common stock. As a result of our reduced ownership interest and as a result of the Company's Chairman and CEO, Kenneth S. Shifrin, stepping down from day-to-day operations as Executive Chairman of the Board of Prime Medical effective January 1, 2002, we ceased accounting for our investment in Prime Medical using the equity method effective March 19, 2002 and began accounting for our investment in Prime as an available-for-sale security in accordance with SFAS 115. Accordingly, our investment in Prime Medical is reported at fair value in our balance sheet and no equity earnings were recorded during the first six months of 2003. We recognized \$186,000 of equity earnings during the first quarter of 2002 prior to converting to the cost method of accounting for this investment.

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The common stock of Prime Medical is traded in the over-the-counter market under the symbol "PMSI". Prime Medical is a Delaware corporation which is required to file with the Securities and Exchange Commission annually, quarterly and other reports and documents containing financial and other information regarding Prime Medical. Such reports and documents may be examined and copies may be obtained from the offices of the Securities and Exchange Commission.

The condensed statements of operations for Prime Medical follows (unaudited, in thousands):

CONDENSED STATEMENTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2003 AND 2002

2003	2002
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Total revenue	\$77,762	\$81,007
Income from operations	17,240	24,683
Net income	3,150	5,137

At June 30, 2003 the Company owned convertible preferred and common stock of Uncommon Care, a developer and operator of dedicated Alzheimer's care facilities. We have followed the guidance of EITF 99-10, specifically the percentage of ownership method, in applying the equity method to our investment in Uncommon Care. Uncommon Care's common stock equity had been eliminated by losses prior to our investment and, accordingly, we recognized 100% of the losses of Uncommon Care based on our ownership of 100% of its preferred stock equity and subordinated debt. During 2001 our total basis in our investment and advances to Uncommon Care was reduced to zero. In 2002 and 2003, Uncommon Care was able to distribute a total of \$355,000 to us as a result of certain sales and refinancing of its debt. Of this, \$120,000 was advanced back to Uncommon Care. Upon receipt we recorded deferred income to be offset against future advances to Uncommon Care. During the first quarter of 2003 we decided not to extend any future cash advances to Uncommon Care. Consequently, we took into income cash payments previously received from Uncommon Care that had been recorded as deferred income as well as cash received from Uncommon Care during the current quarter. Total cash receipts recorded as equity in earnings of unconsolidated affiliates for the six months ended June 30, 2003 was \$235,000. In the six months ended June 30, 2002 we advanced \$230,000 to Uncommon Care. These advances were expensed when made to recognize previously unrecorded losses by the investee.

The common and preferred shares owned by the Company, represent a 42% interest in the common equity in Uncommon Care on a fully converted basis. We continue to record our investment in and advances to Uncommon Care on the equity method.

The condensed statements of operations for Uncommon Care follows (unaudited, in thousands):

CONDENSED STATEMENTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2003 AND 2002

	2003	2002
	----	----
Total revenue	\$3,872	\$3,769
Income from operations	393	(300)
Net loss	(353)	(305)

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6. INVESTMENT IN AVAILABLE-FOR-SALE EQUITY SECURITIES

On June 4, 2003 we purchased from Financial Industries Corporation ("FIC") (NASDAQ: FNIN) and a foundation 339,879 shares of FIC's common stock as an investment. The purchase price was approximately \$5,000,000, which was all sourced from our cash reserves. Earlier in 2003 we had purchased 45,121 FIC shares in the open market. The 385,000 shares represents an approximate 4% ownership in FIC. The shares purchased from FIC and the foundation are not registered, but are subject to a registration rights agreement requiring FIC's best efforts to register them within one year of the transaction. We have classified all of these shares as securities available for sale and have recorded changes in their value, net of tax, in our balance sheet as part of Accumulated Other Comprehensive Income. A material decline in the value of this investment could have a material effect in our financial condition and results of operations.

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As part of this transaction we were granted options to purchase an additional 323,000 shares of FIC's common stock at \$16.42 per share. There is a significant revenue-related performance requirement that must be met before these options are exercisable. There are presently no registered FIC shares available to issue upon the exercise of these options. We have assigned no value to these options.

7. ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities consists of the following:

	June 30 2003 (Unaudited)	December 31 2002
Commissions Payable	\$ 974,000	\$ 798,000
Taxes	55,000	93,000
Vacation	144,000	154,000
Other	157,000	182,000
	\$1,330,000	\$1,227,000
	=====	=====

8. EARNINGS PER SHARE

Basic earnings per share is based on the weighted average shares outstanding without any dilutive effects considered. Diluted earnings per share reflect dilution from all contingently issuable shares, such as options and convertible debt. A reconciliation of earnings and average shares outstanding used in the calculation of basic and diluted earnings per share from operations follows:

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For the Three Months Ended June 30, 2003			
	Earnings (Numerator)	Shares (Denominator)	Per Share Amount
Earnings from operations	\$ 684,000		
Basic EPS			
Earnings available to common stockholders	684,000	2,138,000	\$0.32
			=====
Diluted EPS			
Effect of dilutive securities	--	131,000	
	-----	-----	
Earnings available to common stockholders and assumed conversions	\$ 684,000	2,269,000	\$0.30
	=====	=====	=====

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	For the Three Months Ended June 30, 2002		
	Earnings (Numerator)	Shares (Denominator)	Per Share Amount
Earnings from operations	\$ 449,000		
Basic EPS			
Earnings available to common stockholders	449,000	2,254,000	\$ 0.20 =====
Diluted EPS			
Effect of dilutive securities	--	148,000	
Earnings available to common stockholders and assumed conversions	\$ 449,000 =====	2,402,000 =====	\$ 0.19 =====

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	For the Six Months Ended June 30, 2003		
	Earnings (Numerator)	Shares (Denominator)	Per Share Amount
Earnings from operations	\$ 1,236,000		
Basic EPS			
Earnings available to common stockholders	1,236,000	2,134,000	\$0.58 =====
Diluted EPS			
Effect of dilutive securities	--	113,000	
Earnings available to common stockholders and assumed conversions	\$ 1,236,000 =====	2,247,000 =====	\$0.55 =====

	For the Six Months Ended June 30, 2002		
	Earnings (Numerator)	Shares (Denominator)	Per Share Amount
Earnings from operations	\$ 3,051,000		

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Basic EPS			
Earnings available to common stockholders	3,051,000	2,288,000	\$ 1.33 =====
Diluted EPS			
Effect of dilutive securities	--	124,000	
	-----	-----	
Earnings available to common stockholders and assumed conversions	\$ 3,051,000 =====	2,412,000 =====	\$ 1.26 =====

Unexercised employee stock options to purchase 40,000 and 91,500 shares of the Company's common stock as of June 30, 2003 and 2002, respectively, were not included in the computations of diluted EPS because the effect would be antidilutive as their exercise price exceeds the average stock price during the period.

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9. SEGMENT INFORMATION

The Company's segments are distinct by type of service provided. Comparative financial data for the three month periods ended June 30, 2003 and 2002 are shown as follows:

	Three months ended June 30,	
	2003	2002
	-----	-----
Operating Revenue:		
Financial services	\$ 4,779,000	\$ 3,201,000
Insurance services	2,167,000	2,241,000
Consulting	773,000	903,000
Corporate	1,182,000	117,000
	-----	-----
Total Segment Revenues	\$ 8,901,000 =====	\$ 6,462,000 =====
Reconciliation to Consolidated Statement of Operations:		
Total segment revenues	\$ 8,901,000	\$ 6,462,000
Less: Intercompany dividends	(1,177,000)	(100,000)
Intercompany interest	(5,000)	(17,000)
	-----	-----
Total Revenues	\$ 7,719,000 =====	\$ 6,345,000 =====
Operating Income (Loss)		
Financial services	\$ 716,000	\$ 404,000
Insurance services	464,000	598,000
Consulting	157,000	173,000
Corporate	(452,000)	(378,000)
	-----	-----

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Total segments operating income	885,000	797,000
Gain on sale of investments	74,000	(10,000)
Earnings from operations before interest, incometaxes and minority interests and equity inloss of unconsolidated affiliates	959,000	787,000
Interest income	75,000	6,000
Interest expense	1,000	3,000
Income tax expense	380,000	283,000
Minority interests	204,000	58,000
Equity in unconsolidated affiliates	235,000	--
	-----	-----
Net earnings	\$ 684,000	\$ 449,000
	=====	=====

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	Six months ended June 30, 2003	2002
	-----	-----
Operating Revenue:		
Financial services	\$8,836,000	\$6,298,000
Insurance services	4,724,000	4,350,000
Consulting	1,672,000	1,600,000
Corporate	1,186,000	274,000
	-----	-----
Total Segment Revenues	\$16,418,000	\$12,522,000
	=====	=====
Reconciliation to Consolidated Statement of Operations:		
Total segment revenues	\$16,418,000	\$12,522,000
Less: Intercompany dividends	(1,177,000)	(245,000)
Intercompany interest	(9,000)	(29,000)
	-----	-----
Total Revenues	\$15,232,000	\$12,248,000
	=====	=====
Operating Income (Loss)		
Financial services	\$ 1,433,000	\$ 889,000
Insurance services	1,049,000	1,112,000
Consulting	430,000	240,000
Corporate	(876,000)	(167,000)
	-----	-----
Total segments operating income	2,036,000	2,074,000
Gain on sale of investments	89,000	2,791,000
Earnings from operations before interest, incometaxes and minority interests and equity in loss of unconsolidated affiliates	2,125,000	4,865,000

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Interest Income	148,000	44,000
Interest expense	2,000	21,000
Income tax expense	733,000	1,678,000
Minority interests	537,000	115,000
Equity in unconsolidated affiliates	235,000	(44,000)
	-----	-----
 Net earnings	 \$1,236,000	 \$3,051,000
	=====	=====

10. SALE OF APS CONSULTING

Effective November 1, 2002, we completed the sale of APS Consulting to its management. We sold all of our APS Consulting shares for a de minimus amount of cash plus a \$250,000 seven year term note at the prime rate plus 3%. The note is secured by the assets of APS Consulting. Our existing contract to provide administrative support services to APS Consulting for a period of approximately seven years remains in effect. Fees under this contract are dependent on APS Consulting's pre-tax earnings but may not be less than \$200,000 or more than \$518,000 over the life of the agreement.

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In addition, we extended a line of credit to APS Consulting of up to \$450,000. This line is at the prime rate plus 3% and is collateralized by the accounts receivable and cash of APS Consulting. Advances under the line are dependent upon meeting borrowing base requirements.

Under the terms of the sale agreement, we are dependent upon the future successful operation of the division to collect our proceeds from the disposal. Additionally, as we have a security interest in the assets of the division, we have retained a risk of loss on the division's assets and, under the terms of our notes with the division, we have the ability to veto certain transactions, including significant asset disposals.

Consistent with the guidance under FIN 46, we have not recognized the divestiture of APS Consulting and continue to consolidate the division as an entity in which we have a variable interest that will absorb the majority of the entity's operating losses if they occur.

Accordingly, the assets and liabilities of APS Consulting are included in our consolidated balance sheets as of June 30, 2003 and December 31, 2002. The balance sheet below summarizes the assets and liabilities of APS Consulting that are included in our consolidated balance sheet at June 30, 2003:

	June 30 2003 (Unaudited)	Dec 31 2002
	-----	-----
ASSETS		
Cash	\$171,000	\$347,000
Accounts Receivable, net	601,000	409,000
Prepaid Expenses	18,000	22,000
	-----	-----
Total Current Assets	790,000	778,000
Property and Equipment	63,000	45,000
	-----	-----
Total Assets	\$853,000	\$823,000
	=====	=====

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LIABILITIES

Accounts Payable	\$217,000	\$445,000
Accrued Expenses	50,000	74,000
	-----	-----
Total Current Liabilites	267,000	519,000
Notes Payable	240,000	248,000
Federal Income Tax Payable	108,000	--
Deferred Income	23,000	74,000
	-----	-----
Total Liabilites	\$638,000	\$841,000
	=====	=====
Total Assets in excess (deficit) of Liabilities	\$215,000	\$(18,000)
	=====	=====

We continue to consolidate APS Consulting's revenues and expenses. If APS Consulting reports operating losses, we record such losses in our statement of operations. If APS Consulting reports net earnings, we reduce our interest in such earnings to zero by increasing the minority interest presented in our statement of operations.

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Creditors of APS Consulting have no recourse to the general credit of the Company or its other consolidated subsidiaries.

11. STOCK-BASED COMPENSATION

We have adopted the disclosure-only provisions of Statement of Accounting Standards No. 123, Accounting for Stock-Based Compensation ("SFAS 123"), as amended by SFAS 148, "Accounting for Stock-Based Compensation - Transition and Disclosure", but measure compensation expense for our stock-based employee compensation plans using the intrinsic value method prescribed by APB Opinion No. 25, Accounting for Stock Issued to Employees. Proforma disclosures of net income and earnings per share as if the fair value-based method prescribed by SFAS 123 had been applied in measuring compensation expense follow. For purposes of the proforma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period.

	Three Months Ended June 30,	
	2003	2002
	----	----
Net Earnings as reported	\$684,000	\$449,000
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(59,000)	(63,000)
	-----	-----
Pro forma net earnings	625,000	386,000
Earnings per share		
Basic - as reported	\$ 0.32	\$ 0.20
	=====	=====

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Basic - pro forma	\$ 0.29	\$ 0.17
	=====	=====
Diluted - as reported	\$ 0.30	\$ 0.19
	=====	=====
Diluted - pro forma	\$ 0.28	\$ 0.16
	=====	=====

	Six Months Ended June 30,	
	2003	2002
	----	----
Net Earnings as reported	\$1,236,000	\$3,051,000
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(117,000)	(121,000)
	-----	-----
Pro forma net earnings	1,119,000	2,930,000
Earnings per share		
Basic - as reported	\$ 0.58	\$ 1.33
	=====	=====
Basic - pro forma	\$ 0.52	\$ 1.28
	=====	=====
Diluted - as reported	\$ 0.55	\$ 1.26
	=====	=====
Diluted - pro forma	\$ 0.50	\$ 1.21
	=====	=====

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12. RECENT ACCOUNTING PRONOUNCEMENTS

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity. The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The adoption of SFAS No. 146 did not have a material effect on our consolidated financial statements.

In November 2002, the FASB issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34. This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. The interpretation also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The initial recognition and measurement provisions of the

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Interpretation are applicable to guarantees issued or modified after December 31, 2002 and did not have a material effect on our consolidated financial statements. The disclosure requirements are effective for financial statements of interim and annual periods ending after December 15, 2002.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of FASB Statement No. 123. This Statement amends FASB Statement No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement No. 123 to require prominent disclosures in both annual and interim financial statements. Certain of the disclosure modifications are required for fiscal years ending after December 15, 2002 and are included in the notes to these consolidated financial statements.

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation of ARB No. 51. This Interpretation addresses the consolidation by business enterprises of variable interest entities as defined in the Interpretation. The Interpretation applies immediately to a variable interests in variable interest entities created after January 31, 2003, and to variable interests in variable interest entities obtained after January 31, 2003. We have voluntarily elected early adoption of Interpretation No. 46. The effect of the application of this Interpretation is described in Note 9 to these consolidated financial statements.

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Item 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD LOOKING STATEMENTS

All statements past and future, written or oral, made by us or our officers, directors, shareholders, agents, representatives or employees, including without limitation, those statements contained in this Report on Form 10-QSB, that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including statements regarding our expectations, hopes, intentions or strategies regarding the future. Forward-looking statements may appear in this document or other documents, reports, press releases, and written or oral presentations made by our officers to shareholders, analysts, news organizations or others. Readers should not place undue reliance on forward-looking statements. All forward-looking statements are based on information available to us and the declarant at the time the forward-looking statement is made, and we assume no obligation to update any such forward-looking statements. It is important to note that our actual results could differ materially from those described in such forward-looking statements. In addition to any risks and uncertainties specifically identified in connection with such forward-looking statements, the reader should consult our reports on previous filings under the Securities Act of 1933 and the Securities Exchange Act of 1934, for factors that could cause actual results to differ materially from those presented.

Forward-looking statements are necessarily based on various assumptions

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and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors and legislative, judicial and other governmental authorities and officials. Assumptions relating to the foregoing involve judgements with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond control. Any such assumptions could be inaccurate and, therefore, there can be no assurance that any forward-looking statements by us or our officers, directors, shareholders, agents, representatives or employees, including those forward-looking statements contained in this Report on Form 10-QSB, will prove to be accurate.

CRITICAL ACCOUNTING POLICIES

The preparation of our consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an on-going basis, we evaluate our estimates, including those related to, impairment of assets; bad debts; income taxes; and contingencies and litigation. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities

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that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements. We periodically review the carrying value of our assets to determine if events and circumstances exist indicating that assets might be impaired. If facts and circumstances support this possibility of impairment, our management will prepare undiscounted and discounted cash flow projections which require judgments that are both subjective and complex. Management may also obtain independent valuations.

Our financial services revenues are composed primarily of commissions on securities trades and asset management fees. Revenues related to securities transactions are recognized on a trade date basis. Asset management fees are recognized as a percentage of assets under management during the period based upon the terms of agreements with the applicable customers.

Our insurance services revenues are primarily related to management fees based on the earned premiums of the managed company and include a profit sharing component related to the managed company's annual earnings. Management fees are recorded, based upon the terms of the management agreement, in the period the related premiums are earned by the managed company. The managed company recognizes premiums as earned ratably over the terms of the related policy. The profit sharing component is recognized when it is reasonably certain the managed company will have an annual profit, and, typically, has been recognized during the fourth quarter.

When necessary, we record an allowance for doubtful accounts based on specifically identified amounts that we believe to be uncollectible. If our

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actual collections experience changes, revisions to our allowance may be required. We have a limited number of customers with individually large amounts due at any given balance sheet date. Any unanticipated change in one of those customer's credit could have a material affect on our results of operations in the period in which such changes or events occur. After all attempts to collect a receivable have failed, the receivable is written off against the allowance. When necessary, we record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. While we have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, in the event we were to determine that we would be able to realize our deferred tax assets in the future in excess of its net recorded amount, an adjustment to the deferred tax asset would increase income in the period the determination was made. Likewise, should we determine that we would not be able to realize all or part of our net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged to income in the period the determination was made.

During 2001, it was our judgment that the equity method of accounting for our investment in Prime Medical and Uncommon Care was more appropriate than the cost method, on the basis that even though we held less than a 20% equity interest in Prime Medical, we had significant influence over the operational and financial policies of Prime Medical and Uncommon Care. Using the equity method we recorded our share of Prime Medical's and Uncommon Care's

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earnings or losses. As described earlier in the "Our other investments" section of this Form 10-KSB, during the first quarter of 2002 our sales of shares of Prime Medical common stock reduced our ownership to less than 5% of their total shares outstanding. Consequently, we stopped accounting for our investment in Prime Medical using the equity method and changed to the cost method. Unrealized gains/losses related to our investment in Prime Medical are recorded in equity as other comprehensive income, net of taxes.

In November 2002, we sold our consulting division, APS Consulting, to its management for a de minimus amount of cash and a \$250,000 seven year term note. Additionally, we retained a security interest in the assets of the division, agreed to provide continuing financial support to the division under a \$450,000 line of credit and continue to perform, for a fee, certain administrative services for the division. We determined that, under the terms of the transaction, we were dependent upon the future successful operation of the division to collect the term note receivable accepted as consideration for the sale. We further determined that we had a risk of loss in the division's assets in which we retained a security interest and, through our administrative services arrangement, maintained continuing involvement with the division.

We have accounted for the division as variable interest entity under the guidance of FIN 46 "Consolidation of Variable Interest Entities." Consistent with the guidance under FIN 46, we have not recognized the divestiture of APS Consulting and continue to consolidate the division as an entity in which we have a variable interest that will absorb the majority of the entity's operating losses if they occur.

At June 30, 2003 the Company owned convertible preferred and common stock of Uncommon Care, a developer and operator of dedicated Alzheimer's care facilities. We have followed the guidance of EITF 99-10, specifically the percentage of ownership method, in applying the equity method to our investment in Uncommon Care. Uncommon Care's common stock equity had been eliminated by

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losses prior to our investment and, accordingly, we recognized 100% of the losses of Uncommon Care based on our ownership of 100% of its preferred stock equity and subordinated debt. During 2001 our total basis in our investment and advances to Uncommon Care was reduced to zero. In 2002 and 2003, Uncommon Care was able to distribute a total of \$355,000 to us as a result of certain sales and refinancing of its debt. Of this, \$120,000 was advanced back to Uncommon Care. Upon receipt we recorded deferred income to be offset against future advances to Uncommon Care. During the first quarter of 2003 we decided not to extend any future cash advances to Uncommon Care. Consequently, we took into income cash payments previously received from Uncommon Care that had been recorded as deferred income as well as cash received from Uncommon Care during the current quarter. Total cash receipts recorded as equity in earnings of unconsolidated affiliates for the six months ended June 30, 2003 was \$235,000. In the six months ended June 30, 2002 we advanced \$230,000 to Uncommon Care. These advances were expensed when made to recognize previously unrecorded losses by the investee.

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RESULTS OF OPERATIONS

REVENUES

Revenues from operations increased \$1,374,000 (22%) and \$2,984,000 (24%) for the three and six month periods ended June 30, 2003, respectively, compared to the same periods in 2002. Revenues increased in the current three month period increased at our financial services segment and decreased at our insurance and consulting segments. For the current year six month period, revenues increased at all segments compared to the same period in 2002.

Financial services revenues increased \$1,578,000 (49%) and \$2,538,000 (40%) for the three and six month periods ended June 30, 2003, respectively, compared to the same periods in 2002. The increase in the current year three and six month periods was due to strong commission revenues at APS Financial, the broker/dealer division of our financial services segment. APS Financial continues to trade predominantly in investment grade bond markets. These markets experienced volatility during the second quarter of 2003 and created trading opportunities for our customers. Commissions are higher this year as we have experienced zero turnover in broker personnel and they continue to open new institutional accounts. Corporate bond business volumes have been significant this year as investors look for yields above those offered by treasury securities. Additionally, the success of our corporate bond research has driven an increase in this business.

Our insurance services revenues from our premium-based insurance management segment, APS Insurance Services, decreased \$74,000 (3%) but increased \$374,000 (9%) for the three and six month periods ended June 30, 2003, respectively, compared to the same periods in 2002. The decrease in the current quarter was due to a decision by the medical malpractice insurance company whose business we manage, American Physicians Insurance Exchange ("APIE"), to no longer pay commissions on maintenance fees and on tail coverage policies. Although this will result in lower commission revenues in the future, net income is unaffected since an equal reduction in commission expense will also be experienced. The six month increase is due to greater management fees resulting from higher insurance premiums. Premiums have increased due to rate increases at APIE.

Consulting revenues decreased \$130,000 (14%) but increased \$72,000 (5%)

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for the three and six month periods ended June 30, 2003, respectively, compared to the same periods in 2002. The decrease in the current quarter is due to a greater amount of work performed in the 2nd quarter of 2002 by sub-contractors involved in environmental assessment field activities. These sub-contractor generated fees were primarily pass-through in nature, with an equal increase in expenses. As described in Note 9 to our consolidated financial statements, we completed the sale of APS Consulting to its management effective November 1, 2002. However, since we did not satisfy the conditions to treat the sale as a divestiture, we will record operating losses of APS Consulting in our statement of operations and will record operating earnings of APS Consulting as a reduction of our interest in such earnings by increasing the minority interest presented in our statement of operations.

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EXPENSES

Total operating expenses increased \$1,286,000 (23%) and \$3,022,000 (30%) for the three and six month period ended June 30, 2003, respectively, compared to the same periods in 2002. For the current year three month period, expenses increased at our financial services, insurances services and corporate segments and decreased at our consulting segment. For the current year six month period, expenses increased at our financial services, insurance services and corporate segments and decreased at our consulting segment.

Financial services expense increased \$1,266,000 (45%) and \$1,994,000 (37%) for the three and six month periods ended June 30, 2003, respectively, compared to the same periods in 2002. The primary reason for the current year increases is a \$1,039,000 (60%) and \$1,530,000 (46%) increase in commission expense in the three and six month periods ended June 30, 2003, respectively, compared to the same periods in 2002 resulting from the increase in commission revenue at APS Financial mentioned earlier. In addition, increased net profits at APS Financial resulted in a \$188,000 (71%) and \$384,000 (99%) increase in the current year three and six month periods, respectively, in formula driven management incentive costs.

Insurance services expenses at the insurance management subsidiary increased \$60,000 (4%) and \$437,000 (13%) for the three and six month periods ended June 30, 2003, respectively, compared to the same periods in 2002. The three month increase is due to increases in payroll (\$53,000), management incentive (\$36,000) and advertising (\$64,000). Partially offsetting these increases was the decision by APIE, mentioned above, to no longer pay commissions on maintenance fees and on tail coverage policies. The current year six month increase is due primarily to increased payroll (\$130,000) as a result of an industry salary analysis conducted in the latter half of 2002 which resulted in wages within certain departments increasing to competitive levels in order to retain personnel. Also management incentive increased \$103,000 and advertising increased \$88,000, the latter due to marketing efforts relating to re-branding efforts. Partially offsetting this was a decrease in third party commission expense due to the decision mentioned above.

Consulting expenses decreased \$114,000 (16%) and \$118,000 (9%) for the three and six month periods ended June 30, 2003, respectively, compared to the same periods in 2002. The primary reason for the decline was, as mentioned above, above-average sub-contractor pass-through work performed in the 2nd quarter of 2002 in environmental assessment field activities.

General and administrative expenses increased \$140,000 (44%) and \$205,000 (30%) for the three and six month periods ended June 30, 2003,

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respectively, compared to the same periods in 2002. The primary reason for the increase in both current year periods is due to reimbursement of certain litigation costs from our consulting segment. Also, legal fees are up in 2003 from costs associated with our investment in Financial Industries Corporation.

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Gain on sale of assets primarily represents the recognition of deferred income resulting from reducing our investment in Prime Medical through the sale of its common stock. Approximately \$760,000 of the \$5,100,000 gain on the sale of real estate to Prime Medical in 2001 was deferred in 2001 and is to be recognized upon the reduction of our percentage in Prime Medical through the sale of its stock. To date, a total of \$527,000 of the \$760,000 originally deferred has been recognized, including \$2,000 in the first quarter of 2003 and \$6,000 in the second quarter of 2003.

Interest expense decreased \$19,000 (90%) for the six month period ended June 30, 2003 compared to the same period in 2002. The primary cause of the current period decrease is the payoff of the Company's note payable which carried a balance of \$2,750,000 during the first quarter of 2002. There was no long-term debt at June 30, 2003.

GAIN ON SALE OF INVESTMENTS

Gain on the sale of investments increased \$84,000 but decreased \$2,702,000 for the three and six month periods ended June 30, 2003, respectively, compared to the same periods in 2002. The six month decline was due to the sale of far fewer shares of Prime Medical common stock in 2003 compared to 2002. In 2002, we recorded gains on the sales of 1,580,000 shares compared to 24,000 shares sold in 2003. As a result of these sales, as of June 30, 2003, we own approximately 728,000 shares of Prime Medical amounting to an ownership percentage of approximately 4%. The three month current year increase is due to gains on the sale of Prime Medical common stock as well as to gains on the sales of other available-for-sale equity and fixed income securities. The sales of these securities was completed for the purpose of investing in Financial Industries Corporation.

EQUITY IN EARNINGS OF UNCONSOLIDATED AFFILIATES

Our equity in the earnings of Prime Medical was zero in 2003 as we no longer account for our investment in Prime Medical using the equity method of accounting, as was the case in the first quarter of 2002 when we recorded \$186,000 in equity earnings. As of March 19, 2002, we ceased accounting for our investment in Prime Medical using the equity method of accounting because (1) on January 1, 2002, Kenneth S. Shifrin, the Company's Chairman and CEO, stepped down from day-to-day operations as Executive Chairman of the Board of Prime Medical, but continues to serve as non-executive Chairman; and (2) from January to March 19, 2002, we sold 1,570,000 shares of Prime Medical reducing our ownership percentage to slightly less than 5%.

Our equity in earnings of Uncommon Care increased \$235,000 and \$465,000 for the three and six month periods ended June 30, 2003, respectively, compared to the same periods in 2002. Because our total investment and advances to Uncommon Care has been reduced to zero we ceased recording equity losses, as required under the equity method. Accordingly, any further advances to Uncommon Care will result in a loss when advanced. In 2002, we advanced them \$230,000 and

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recorded a loss for the full amount of the advance. In 2003, we recorded equity in earnings of unconsolidated affiliates in the amount of \$235,000 related to the cash received from Uncommon Care.

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MINORITY INTERESTS

Minority interests represents the combination of two outside interests in subsidiaries of the Company: a twenty percent interest in Insurance Services owned by FPIC Insurance Group, Inc. and a three percent interest in APS Asset Management, a subsidiary of the financial services subsidiary of the Company (APS Investment Services), owned by key individuals within APS Asset Management. In addition, we are now recording net income from APS Consulting as minority interest. See Note 10 to these consolidated financial statements. Minority interests increased in the current year primarily due to increased profitability of our insurance services segment as well as to net income from APS Consulting.

SHAREHOLDERS' EQUITY

For the six months ended June 30, 2003, we purchased 20,576 and cancelled 6,713 shares of treasury stock. In addition, options were exercised for the purchase of 20,000 shares. The effect of these purchases and cancellations of treasury stock and the exercisings of stock options was to increase treasury stock by \$64,000, increase common stock by \$1,300, increase paid-in capital by \$78,000 and decrease retained earnings by \$25,000.

Through June 30, 2003, we recorded other comprehensive loss of \$1,950,000 which represents unrealized holding losses on securities held for sale, primarily in Prime Medical common stock, net of tax. Changes in fair value for securities categorized as "available-for-sale" are excluded from earnings and reported net of deferred income taxes in shareholders' equity until realized.

LIQUIDITY AND CAPITAL RESOURCES

Current assets exceeded current liabilities by \$5,873,000 at June 30, 2003 and \$6,067,000 at December 31, 2002. Working capital declined in 2003 due primarily to a decrease in current deferred income tax liability resulting from unrealized losses incurred from the market value decline in our investment in available-for-sale equity securities. In addition, increased investments in long-term available-for-sale equity securities resulted from using funds derived from the sale of current available-for-sale fixed income securities.

Capital expenditures through the three month period ended June 30, 2003 were approximately \$185,000. Total capital expenditures are expected to be approximately \$250,000 in 2003.

Historically, the Company has maintained a positive working capital position and has been able to satisfy its operational and capital expenditure requirements with cash generated from its operating and investing activities. These same sources of funds have also allowed us to pursue investment and expansion opportunities consistent with our growth plans. Although it is uncertain if our operating activities will continue to provide positive cash flow in 2003, we believe that our current strong working capital position will enable us to meet our working capital requirements for the foreseeable future.

ADOPTION OF RECENT ACCOUNTING PRONOUNCEMENTS

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity. The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The adoption of SFAS No. 146 did not have a material effect on our consolidated financial statements.

In November 2002, the FASB issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34. This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. The interpretation also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The initial recognition and measurement provisions of the Interpretation are applicable to guarantees issued or modified after December 31, 2002 and did not have a material effect on our consolidated financial statements. The disclosure requirements are effective for financial statements of interim and annual periods ending after December 15, 2002.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of FASB Statement No. 123. This Statement amends FASB Statement No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement No. 123 to require prominent disclosures in both annual and interim financial statements. Certain of the disclosure modifications are required for fiscal years ending after December 15, 2002 and are included in the notes to these consolidated financial statements.

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation of ARB No. 51. This Interpretation addresses the consolidation by business enterprises of variable interest entities as defined in the Interpretation. The Interpretation applies immediately to a variable interest in variable interest entities created after January 31, 2003, and to variable interests in variable interest entities obtained after January 31, 2003. We have voluntarily elected early adoption of Interpretation No. 46. The effect of the application of this Interpretation is described in Note 9 to these consolidated financial statements.

Item 3.

CONTROLS AND PROCEDURES

- a.) Within the 90-day period prior to the date of this report, we carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief

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Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-14 of the Securities and Exchange Act of 1934 (the "Exchange Act"). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to our reports (including those of our consolidated subsidiaries) required to be included in our Exchange Act filings.

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

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PART II

OTHER INFORMATION

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Item 1. LEGAL PROCEEDINGS

We are involved in various claims and legal actions that have arisen in the ordinary course of business. We believe that the liability provision in our consolidated financial statements is sufficient to cover any unfavorable outcome related to lawsuits in which we are currently named. Management believes that liabilities, if any, arising from these actions will not have a significant adverse effect on our financial condition or results of operations. However, due to the uncertain nature of legal proceedings, the actual outcome of these lawsuits may differ from the liability provision recorded in our consolidated financial statements.

Item 2. CHANGES IN SECURITIES

For the six months ended June 30, 2003, we purchased 20,576 and cancelled 6,713 shares of treasury stock. In addition, 20,000 shares were issued upon exercise of options. The effect of these purchases and cancellations of treasury stock and the exercisings of stock options was to increase treasury stock by \$64,000, increase common stock by \$1,300, increase paid-in capital by \$78,000 and decrease retained earnings by \$25,000.

Item 4. RESULTS OF VOTES OF SECURITY HOLDERS

On June 30, 2003 the annual meeting of American Physicians Service Group, Inc. was held in Austin, Texas. Shareholders voted and approved the following

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motion:

ELECTION OF DIRECTORS

The names of the directors elected at the meeting along with numbers of votes for and withheld are as follows:

Name	For	Withheld
Brad A. Hummel	2,025,959	8,298
Jackie Majors	2,025,957	8,300
Robert L. Myer	2,025,958	8,299
William A. Searles	2,025,959	8,298
Kenneth S. Shifrin	2,025,954	8,303

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Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

31.1	Section 302 Certification of Chief Executive Officer
31.2	Section 302 Certification of Chief Financial Officer
32.1	Section 906 Certification of Chief Executive Officer
32.2	Section 906 Certification of Chief Financial Officer

(b) Reports on Form 8-K.

Report filed May 15, 2003 concerning the press release reporting first quarter 2003 results of operations and financial condition.

Report dated June 4, 2003 concerning our acquisition of approximately 340,000 shares of Financial Industries Corporation common stock.

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