AMERICAN PHYSICIANS SERVICE GROUP INC
Form 10QSB
November 12, 2003

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON D.C. 20549

FORM 10-QSB

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE PERIOD ENDED SEPTEMBER 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	75-1458323
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer identification No.)

1301 CAPITAL OF TEXAS HIGHWAY AUSTIN, TEXAS	78746
(Address of principal executive offices)	(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

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 October 31, 2003
Common Stock, $.10 par value	2,330,067

PART I

FINANCIAL INFORMATION

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

Item 1 - Financial Statements

(In thousands)

	Three Months Ended September 30, 2003	Three Months Ended September 30, 2002	Nine S 2003
Revenues:			
Financial services	$5,892	$3,429	$14,728
Insurance services	3,108	2,854	7,832
Consulting	990	899	2,662
Total revenue	9,990	7,182	25,222
Expenses:			
Financial services	4,958	3,048	12,361
Insurance services	2,388	2,215	6,063
Consulting	826	760	2,068
General and administrative	469	694	1,353
Gain on sale of assets (Note 4)	--	(3)	(8)
Total expenses	8,641	6,714	21,838
Operating income	1,349	468	3,384
Gain loss on sale of investments (Note 4)	--	64	89
Earnings from operations before interest, income taxes, minority interests and equity in unconsolidated affiliates	1,349	532	3,473
Interest income	76	59	224
Interest expense	4	4	7
Income tax expense	474	221	1,207
Minority interests (Note 10)	241	70	778
Equity in gain (loss) loss of unconsolidated affiliates (Note 5)	25	--	260

Net earnings	$731	$296	$1,965

See accompanying notes to consolidated financial statements.

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

(In thousands, except per share amounts)

	Three Months Ended September 30,		Nine M Sep
	2003	2002	2003
Earnings per common share			
Basic:			
Earnings from operations	$0.34	$0.13	$0.92
Net earnings	$0.34	$0.13	$0.92
Diluted:			
Earnings from operations	$0.31	$0.13	$0.86
Net earnings	$0.31	$0.13	$0.86
Basic weighted average shares outstanding	2,168	2,223	2,146
Diluted weighted average shares outstanding	2,357	2,357	2,284

See accompanying notes to consolidated financial statements.

AMERICAN PHYSICIANS SERVICE GROUP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	September 30, 2003 (Unaudited)	December 31, 2002
ASSETS		
Current Assets:		
Cash and cash equivalents	$8,415	$6,691
Trading account securities	80	133
Trade receivables, net	779	460
Notes receivable - current	603	571
Management fees and other receivables	694	763
Deposit with clearing organization	750	500
Receivable from clearing organization	70	70
Investment in available-for-sale fixed income securities - current	--	1,015
Income tax receivable	--	491
Deferred tax asset - current	333	--
Prepaid expenses and other	403	673
Total current assets	12,127	11,367
Notes receivable, less current portion	17	374
Property and equipment, net	537	374
Investment in available-for-sale equity securities (Notes 5 and 6)	8,745	6,996
Investment in available-for-sale fixed income securities - non-current	828	3,273
Net deferred income tax asset - non-current	2,134	2,399
Other assets	195	198
Total Assets	$24,583	$24,981

See accompanying notes to consolidated financial statements.

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

(In thousands, except share data)	September 30, 2003 (Unaudited)	December 31, 2002
LIABILITIES AND SHAREHOLDERS' EQUITY		

Current liabilities:		
Accounts payable - trade	$739	$738
Payable to clearing broker	80	70
Accrued incentive compensation	1,932	1,804
Accrued expenses and other liabilities (Note 7)	1,285	1,227
Federal income taxes payable	285	--
Deferred gain - current	488	487
Deferred tax liability - current	--	974
Total current liabilities	4,809	5,300
Payable under loan participation agreements	259	259
Deferred gain - non-current	1,309	1,887
Total liabilities	6,377	7,446
Minority interests (Note 10)	1,035	393
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; 2,233,067 issued and outstanding at 09/30/03 and 2,133,843 at 12/31/02	223	213
Additional paid-in capital	6,077	5,584
Retained earnings	11,277	9,515
Accumulated other comprehensive income (loss), net of taxes	(406)	1,830
Total shareholders' equity	17,171	17,142
Total Liabilities and Shareholders' Equity	$24,583	$24,981

See accompanying notes to consolidated financial statements.

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

(In thousands)

Nine Months E
2003

Cash flows from operating activities:	
Net income	$1,965
Adjustments to reconcile net income to cash used in operating activities:	
Depreciation and amortization	155
Forgiveness of debt and other	124
Minority interest in consolidated earnings	788
Undistributed (gain) loss of affiliates	(260)
Gain on sale of assets	(306)
Gain on sale of investment	(89)
Provision for bad debt	6
Changes in operating assets and liabilities:	
Trade receivables	(325)
Trading account securities	53
Income tax receivable	761
Deferred income taxes	(39)
Receivable from clearing organization	(240)
Management fees & other receivables	69
Prepaid expenses & other assets	270
Deferred income	(58)
Trade accounts payable	1
Accrued expenses & other liabilities	186
Net cash received in operating activities	3,061
Cash flows from investing activities:	
Capital expenditures	(308)
Proceeds from the sale of available-for-sale equity and fixed income securities	4,118
Purchase of available-for-sale equity securities	(5,697)
Receipts from (advances to) affiliate	175
Funds loaned to others	(150)
Collection of notes receivable	415
Net cash (used in) provided by investing activities	(1,447)
Cash flows from financing activities:	
Payment of long term debt	--
Exercise of stock options	507
Purchase and cancellation of treasury stock	(207)
Distribution to minority interest	(190)
Net cash received from (used in) financing activities	110
Net change in cash and cash equivalents	$1,724
Cash and cash equivalents at beginning of period	6,691
Cash and cash equivalents at end of period	$8,415

See accompanying notes to consolidated financial statements.

AMERICAN PHYSICIANS SERVICE GROUP, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

AND COMPREHENSIVE INCOME (LOSS)
For the nine months ended September 30, 2002 and 2003

(In thousands)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Comprehensive Income (loss)	Accumula Other Comprehe Income (
Balance Dec 31, 2001 (audited)	$275	$5,539	$8,310		$(39
Comprehensive income:					
Net income	--	--	3,347	$3,347	--
Other comprehensive income:					
Unrealized gain on securities, net of taxes of $1,843	--	--	--	2,171	2,17
Comprehensive income	--	--	--	$5,518	--
Treasury stock purchase	--	--	--	--	--
Cancelled treasury stock	(61)	--	(2,415)	--	--
Stock options exercised	1	21	154	--	--
Stock options expensed	--	30	--	--	--
Balance Sept 30, 2002 (unaudited)	$215	$5,590	$9,395	$ --	$2,13
Balance Dec 31, 2002 (audited)	$213	$5,584	$9,515		$1,83
Comprehensive income:					
Net income	--	--	1,965	1,965	--
Other comprehensive income:					
Unrealized loss on securities, net of taxes of $1,152	--	--	--	(2,236)	(2,23
Comprehensive loss	--	--	--	$(271)	--
Treasury stock purchases	--	--	--		--
Cancelled treasury stock	(4)	--	(203)		--
Stock options exercised	14	493	--	--	--
Balance Sept 30, 2003 (unaudited)	$223	$6,077	$11,277	$--	$(406

See accompanying notes to consolidated financial statements.

AMERICAN PHYSICIANS SERVICE GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 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 nine months ended September 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 September 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 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 September, 2001. Uncommon Care's management has been informed by us that we will not advance them additional funds. During 2001, our total basis in investments in and advances to Uncommon Care was reduced to zero.

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 nine months ended September 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. No securities were sold, thus, no gain was recognized during the third quarter of 2003.

Additionally, during the nine months ended September 30, 2002, we recognized $366,000 of deferred gain in 2003 related to the November 2001 sale and subsequent leaseback of real estate to Prime Medical, including $122,000 recognized during the third quarter. 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 nine months of 2003, we recognized $8,000 of these deferred gains.

5. EQUITY IN EARNINGS OF UNCONSOLIDATED AFFILIATES

At September 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 nine 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.

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 nine months ended September 30, 2003 and 2002

	2003	2002
Total revenue	$117,321	$126,305
Income from operations	25,673	19,852
Net income	3,925	(2,970)

At September 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 $380,000 to us as a result of certain asset 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 subsequent cash payments received from Uncommon Care. Total cash receipts recorded as equity in earnings of unconsolidated affiliates for the nine months ended September 30, 2003 was $260,000. In the nine months ended September 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.

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

Condensed statements of operations for the nine months ended September 30, 2003 and 2002

	2003	2002
Total revenue	$5,715	$5,691
Income from operations	381	562
Net loss	(731)	(631)

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.

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:

	September 30 2003 (Unaudited)	December 31 2002
Commissions Payable	$ 851,000	$ 798,000
Taxes	83,000	93,000
Vacation	144,000	154,000
Other	207,000	182,000
	$1,285,000	$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 weighted average shares outstanding used in the calculation of basic and diluted earnings per share from operations follows:

	For the Three Months Ended September 30, 2003		
	Earnings (Numerator)	Shares (Denominator)	Per Share Amount
Earnings from operations	$731,000		
Basic EPS			
Earnings available to common stockholders	731,000	2,168,000	$0.34
Diluted EPS			
Effect of dilutive securities	--	189,000	

Earnings available to common stockholders and assumed conversions	$731,000	2,357,000	$0.31

	For the Three Months Ended September 30, 2002		
	Earnings (Numerator)	Shares (Denominator)	Per Share Amount
Earnings from operations	$296,000		
Basic EPS			
Earnings available to common stockholders	296,000	2,223,000	$ 0.13
Diluted EPS			
Effect of dilutive securities	--	134,000	
Earnings available to common stockholders and assumed conversions	$296,000	2,357,000	$ 0.13

	For the Nine Months Ended September 30, 2003		
	Earnings (Numerator)	Shares (Denominator)	Per Share Amount
Earnings from operations	$1,965,000		
Basic EPS			
Earnings available to common stockholders	1,965,000	2,146,000	$0.92
Diluted EPS			
Effect of dilutive securities	--	138,000	
Earnings available to common stockholders and assumed conversions	$1,965,000	2,284,000	$0.86

	For the Nine Months Ended September 30, 2002		
	Earnings (Numerator)	Shares (Denominator)	Per Share Amount
Earnings from operations	$3,347,000		
Basic EPS			
Earnings available to common stockholders	3,347,000	2,266,000	$ 1.48
Diluted EPS			
Effect of dilutive securities	--	127,000	
Earnings available to common stockholders and assumed conversions	$3,347,000	2,393,000	$ 1.40

Unexercised employee stock options to purchase zero and 116,500 shares of the Company's common stock as of September 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.

9. Segment Information

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

	Three months ended September 30,	
	2003	2002
Operating Revenue:		
Financial services	$ 5,892,000	$ 3,429,000
Insurance services	3,108,000	2,854,000
Consulting	990,000	899,000
Corporate	408,000	10,000
Total Segment Revenues	$ 10,398,000	$ 7,192,000

Reconciliation to Consolidated

Statement of Operations:		
Total segment revenues	$ 10,398,000	$ 7,192,000
Less: Intercompany dividends	(400,000)	--
Intercompany interest	(8,000)	(10,000)
Total Revenues	$ 9,990,000	$ 7,182,000

Operating Income (Loss)		
Financial services	$ 934,000	$ 381,000
Insurance services	720,000	639,000
Consulting	164,000	139,000
Corporate	(469,000)	(691,000)
Total segments operating income	1,349,000	468,000
Gain on sale of investments	--	64,000
Earnings from operations before interest, income taxes and minority interests and equity in loss of unconsolidated affiliates	1,349,000	532,000
Interest income	76,000	59,000
Interest expense	4,000	4,000
Income tax expense	474,000	221,000
Minority interests	241,000	70,000
Equity in unconsolidated affiliates	25,000	--
Net earnings	$ 731,000	$ 296,000

	Nine months ended September 30,	
	2003	2002
Operating Revenue:		
Financial services	$ 14,728,000	$ 9,727,0
Insurance services	7,832,000	7,204,0
Consulting	2,662,000	2,499,0
Corporate	1,590,000	344,0
Total Segment Revenues	$ 26,812,000	$ 19,774,0
Reconciliation to Consolidated Statement of Operations:		
Total segment revenues	$ 26,812,000	$ 19,774,0
Less: Intercompany dividends	(1,577,000)	(245,0
Intercompany interest	(13,000)	(99,0

Total Revenues	$ 25,222,000	$ 19,430,0
Operating Income (Loss)		
Financial services	$ 2,367,000	$ 1,270,00
Insurance services	1,769,000	1,750,00
Consulting	594,000	379,00
Corporate	(1,346,000)	(857,00
Total segments operating income	3,384,000	2,542,00
Gain on sale of investments	89,000	2,855,00
Earnings from operations before interest, income taxes and minority interests and equity in loss of unconsolidated affiliates	3,473,000	5,397,00
Interest Income	224,000	103,00
Interest expense	7,000	25,00
Income tax expense	1,207,000	1,899,00
Minority interests	778,000	185,00
Equity in unconsolidated affiliates	260,000	(44,00
Net earnings	$ 1,965,000	$ 3,347,00

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 September 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:

ASSETS	September 30 2003 (Unaudited)	December 31 2002
Cash	$269,000	$347,000
Accounts Receivable, net	778,000	409,000
Prepaid Expenses	18,000	22,000
Total Current Assets	1,065,000	778,000
Property and Equipment	141,000	45,000
Total Assets	$1,206,000	$823,000
LIABILITIES		
Accounts Payable	$400,000	$445,000
Accrued Expenses	95,000	74,000
Total Current Liabilites	495,000	519,000
Notes Payable	235,000	248,000
Federal Income Tax Payable	162,000	--
Deferred Income	21,000	74,000
Total Liabilites	$913,000	$841,000
Total Assets in excess (deficit) of Liabilities	$293,000	$(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.

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 Accouting 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 option's vesting periods.

	Three Months Ended September 30,	
	2003	2002
Net Earnings as reported	$731,000	$296,000
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(58,000)	(54,000)
Pro forma net earnings	673,000	242,000
Earnings per share		
Basic - as reported	$ 0.34	$ 0.13
Basic - pro forma	$ 0.31	$ 0.11
Diluted - as reported	$ 0.31	$ 0.13
Diluted - pro forma	$ 0.29	$ 0.10

	Nine Months Ended September 30,	
	2003	2002
Net Earnings as reported	$1,965,000	$3,347,000
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(175,000)	(175,000)
Pro forma net earnings	1,790,000	3,172,000
Earnings per share		
Basic - as reported	$ 0.92	$ 1.48
Basic - pro forma	$ 0.83	$ 1.40
Diluted - as reported	$ 0.86	$ 1.40
Diluted - pro forma	$ 0.78	$ 1.33

12. RECENT ACCOUNTING PRONOUNCEMENTS

In September 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 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 10 to these consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity ("SFAS No. 150"). SFAS No. 150 requires that certain financial instruments, which under previous guidance were accounted for as equity, must now be accounted for as liabilities. The financial instruments affected include mandatorily redeemable stock, certain financial instruments that require or may require the issuer to buy back some of its shares in exchange for cash or other assets and certain obligations that can be settled with shares of stock. SFAS No. 150 is effective for all financial instruments entered into or modified after May 31, 2003 and must be applied to the Company's existing financial instruments effective July 1, 2003, the beginning of the first fiscal period after June 15, 2003. The adoption of SFAS No. 150 did not have a material effect on the Company's consolidated financial statements.

13. SUBSEQUENT EVENTS

In October 2003, we acquired the twenty percent minority interest in our Insurance Services segment from First Professionals Insurance Company, Inc. (FPIC) for cash consideration of $2,050,000. The transaction will be accounted for as a business combination under the purchase method. Accordingly, the assets, including previously unrecognized intangible assets, and liabilities acquired in the transaction will be adjusted to their fair value and the excess value will be recorded as goodwill.

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 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

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 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

earnings or losses. 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 September 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 $380,000 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 nine months ended September 30, 2003 was $260,000. In the nine months ended September 30, 2002 we advanced $230,000 to Uncommon Care. These advances were expensed when made to recognize previously unrecorded losses by the investee.

RESULTS OF OPERATIONS

REVENUES

Revenues from operations increased $2,808,000 (39%) and $5,792,000 (30%) for the three and nine month periods ended September 30, 2003, respectively, compared to the same periods in 2002. Revenues increased in the current three month and nine month periods at all of our segments compared to the same periods in 2002.

Financial services revenues increased $2,463,000 (72%) and $5,001,000 (51%) for the three and nine month periods ended September 30, 2003, respectively, compared to the same periods in 2002. The increase in the current year three and nine month periods was due to strong commission revenues at APS Financial, the broker/dealer division of our financial services segment. APS Financial derives most of its revenue from trading in the fixed income market, both in investment and non-investment securities. While revenue from investment grade transactions has increased, revenue derived from the high yield market has been particularly strong, as that sector has performed particularly well throughout the year. Also, we continue to have very low turnover in personnel, while expanding our customer base using the value added service we provide in corporate bond research.

Our insurance services revenues from our premium-based insurance management segment, APS Insurance Services, increased $254,000 (9%) and $628,000 (9%) for the three and nine month periods ended September 30, 2003, respectively, compared to the same periods in 2002. The three and nine month current year increases are due to greater management fees resulting from higher insurance premiums. The increase in premiums has been a result of several rate increases throughout the 2002-2003 years coupled with an increase in retention resulting from the limited carriers writing medical malpractice insurance in Texas.

Consulting revenues increased $91,000 (10%) and $163,000 (7%) for the three and nine month periods ended September 30, 2003, respectively, compared to the same periods in 2002. The increase in both current year periods is due to a greater amount of environmental compliance work performed for oil and gas companies in the Houston and Mobile markets. As described in Note 10 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.

EXPENSES

Total operating expenses increased $1,927,000 (29%) and $4,949,000 (29%) for the three and nine month period ended September 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 consulting segments and decreased at our corporate segment. For the current year nine month period, expenses increased at our financial services and insurance services segments and decreased at our corporate and consulting segments.

Financial services expense increased $1,910,000 (63%) and $3,904,000 (46%) for the three and nine month periods ended September 30, 2003, respectively, compared to the same periods in 2002. The primary reason for the current year increases is a $1,609,000 (81%) and $3,139,000 (59%) increase in commission expense in the three and nine month periods ended September 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 $296,000 (128%) and $681,000 (110%) increase in the current year three and nine month periods, respectively, in formula driven management incentive costs. Partially offsetting these increases were relatively minor current year decreases in ticket charges, information services, legal and rent expenses.

Insurance services expenses at the insurance management subsidiary increased $173,000 (8%) and $610,000 (11%) for the three and nine month periods ended September 30, 2003, respectively, compared to the same periods in 2002. The three month increase is due to increases in payroll related costs ($68,000), management incentives ($12,000) and advertising expenses ($5,000). The current year nine month increase is due primarily to increased payroll related costs ($239,000) 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 $115,000 and advertising expenses increased $93,000, the latter due to marketing efforts relating to re-branding efforts.

Consulting expenses increased $66,000 (9%) but have decreased $52,000 (2%) for the three and nine month periods ended September 30, 2003, respectively, compared to the same periods in 2002. The increase in the current year three month period was due to higher payroll related and higher professional fees, the latter resulting from an employment related suit brought against Eco-Systems that has since been dismissed. The primary reason for the nine month decline was above-average sub-contractor pass-through work performed in the second quarter of 2002 in environmental assessment field activities.

General and administrative expenses decreased $225,000 (32%) and $20,000 (1%) for the three and nine month periods ended September 30, 2003, respectively, compared to the same periods in 2002. The primary reason for the decrease in the current year three month period is due to formula driven management incentive accruals totaling $375,000 in the third quarter of 2002. These accruals were necessary as profits in 2002 were greatly affected by gains of the sale of Prime Medical common stock. During the third quarter of 2003, only $75,000 was added to the management incentive accrual.

Gain on sale of assets primarily represents the recognition of deferred income. Approximately $760,000 of the $5,100,000 gain on the sale of real estate to Prime Medical in 2001 was deferred in 2001 due to our ownership interest in Prime 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 amount has been recognized, including $2,000 in the first quarter of 2003 and $6,000 in the second quarter of 2003.

Interest expense decreased $18,000 (72%) for the nine month period ended September 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 September 30, 2003.

GAIN ON SALE OF INVESTMENTS

Gain on the sale of investments decreased $64,000 and $2,766,000 for the three and nine month periods ended September 30, 2003, respectively, compared to the same periods in 2002. The nine month decline was due to the sale of significantly less 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 September 30, 2003, we own approximately 728,000 shares of Prime Medical amounting to an ownership percentage of approximately 4%. The three month current year decrease is due to the fact that no Prime Medical common stock nor any other available-for-sale equity or fixed income securities were sold during the quarter.

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 $260,000 and $490,000 for the three and nine month periods ended September 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. In 2002, we advanced them $230,000 and recorded a loss for the full amount of the advance. In 2003, after informing management that no further advances would be made to the Company, we recorded equity in earnings of unconsolidated affiliates in the amount of $260,000 related to the cash received from Uncommon Care.

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 earnings 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 earnings from APS Consulting.

SHAREHOLDERS' EQUITY

For the nine months ended September 30, 2003, we purchased and cancelled 43,976 shares of treasury stock. In addition, 143,200 shares were issued upon exercise of options. The result of these purchases and cancellations of treasury stock and the exercising of stock options was a net zero effect on treasury stock, an increase to common stock by $10,000, an increase to paid-in capital by $493,000 and a decrease to retained earnings by $203,000.

Through September 30, 2003, we recorded other comprehensive loss of $2,236,000 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 $7,318,000 at September 30, 2003 and $6,067,000 at December 31, 2002. Working capital rose in 2003 due primarily to cash received from operations.

Capital expenditures through the three month period ended September 30, 2003 were approximately $308,000, although approximately $114,000 was recorded at Eco-Systems for primarily field equipment purchases not in the ordinary course of our core businesses. Total capital expenditures are expected to be approximately $325,000 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 September 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.

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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 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.

PART II

OTHER INFORMATION

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 nine months ended September 30, 2003, we purchased and cancelled 43,976 shares of treasury stock. In addition, 143,200 shares were issued upon exercise of options. The result of these purchases and cancellations of treasury stock and the exercisings of stock options was a net zero effect on treasury stock, an increase to common stock by $10,000, an increase to paid-in capital by $493,000 and a decrease to retained earnings by $203,000.

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 August 14, 2003 concerning the press release reporting second quarter 2003 results of operations and financial condition.