

AMERICAN PHYSICIANS SERVICE GROUP INC  
Form 10-Q  
May 05, 2010

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

---

**FORM 10-Q**

b Quarterly Report Pursuant to Sections 13 or 15(d) of the  
Securities Exchange Act of 1934

For the period ended

March 31, 2010

or

.. Transition Report Pursuant to Sections 13 or 15(d) of

the Securities and Exchange Act of 1934

For the transition period from

\_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-31434

**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 S. Capital of Texas Highway, Suite C-300, 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 Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12

Edgar Filing: AMERICAN PHYSICIANS SERVICE GROUP INC - Form 10-Q

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 ☐ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☐

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

**Number of Shares Outstanding At**

<b><u>Title of Each Class</u></b>	<b><u>April 30, 2010</u></b>
Common Stock, \$.10 par value	6,866,101

**AMERICAN PHYSICIANS SERVICE GROUP, INC.**

Table of Contents to Quarterly Report on Form 10-Q

For the Quarter Ended March 31, 2010

	<b><u>Page</u></b>
<b>Part I</b>	
<b>Financial Information</b>	
<b>Item 1. <u>Financial Statements</u></b>	3
<u>Unaudited Consolidated Balance Sheets as of March 31, 2010 and December 31, 2009</u>	3
<u>Unaudited Consolidated Statements of Operations for the Three Months ended March 31, 2010 and 2009</u>	5
<u>Unaudited Consolidated Statement of Shareholders' Equity and Comprehensive Income for the Three Months ended March 31, 2010 and 2009</u>	7
<u>Unaudited Consolidated Statements of Cash Flows for the Three Months ended March 31, 2010 and 2009</u>	9
<u>Notes to the Unaudited Consolidated Financial Statements</u>	10
<b>Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	27
<b>Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u></b>	39
<b>Item 4. <u>Controls and Procedures</u></b>	41
<b>Part II</b>	
<b>Other Information</b>	
<b>Item 1. <u>Legal Proceedings</u></b>	42
<b>Item 1A. <u>Risk Factors</u></b>	42
<b>Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	42
<b>Item 3. <u>Defaults Upon Senior Securities</u></b>	43
<b>Item 4. <u>(Removed and Reserved)</u></b>	43
<b>Item 5. <u>Other Information</u></b>	43
<b>Item 6. <u>Exhibits</u></b>	43



**PART 1**  
**FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**AMERICAN PHYSICIANS SERVICE GROUP, INC.**  
**CONSOLIDATED BALANCE SHEETS**

(in thousands)

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
	(Unaudited)	
<b>Assets</b>		
Investments:		
Fixed maturities available for sale, at fair value	\$ 239,988	\$ 226,583
Equity securities available for sale, at fair value	12,190	12,944
Other invested assets	1,553	1,534
<b>Total investments</b>	<b>253,731</b>	<b>241,061</b>
Cash and cash equivalents	19,279	18,277
Accrued investment income	1,717	1,700
Premiums receivable	16,566	15,678
Reinsurance recoverables on paid and unpaid loss and loss adjustment expenses	7,461	8,897
Other amounts receivable under reinsurance contracts	-	785
Deferred policy acquisition costs	2,430	2,335
Income tax receivable	-	623
Deferred tax assets	5,672	6,015
Property and equipment, net	407	406
Intangible assets	2,545	2,563
Other assets	1,560	1,432
<b>Total assets</b>	<b>\$ 311,368</b>	<b>\$ 299,772</b>

*The accompanying notes are an integral part of these consolidated financial statements.*

**AMERICAN PHYSICIANS SERVICE GROUP, INC.  
CONSOLIDATED BALANCE SHEETS**

(in thousands, except share and per share amounts)

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
	(Unaudited)	
<b><i>Liabilities</i></b>		
Reserve for loss and loss adjustment expense	\$ 89,171	\$ 88,668
Unearned premiums	38,707	36,341
Reinsurance premiums payable	14	30
Funds held under reinsurance treaties	3,113	2,379
Federal income tax payable	1,175	-
Trade payables	5,820	94
Accrued expenses and other liabilities	3,717	6,371
Mandatorily redeemable preferred stock	5,504	6,679
<b><i>Total liabilities</i></b>	<b>147,221</b>	<b>140,562</b>
Commitments and contingencies		
<b><i>Shareholders' Equity</i></b>		
Common stock, \$0.10 par value, 20,000,000 shares authorized, 6,872,457 and 6,876,215 issued		
and outstanding at March 31, 2010 and December 31, 2009	687	688
Additional paid-in capital	81,973	81,784
Accumulated other comprehensive income	5,852	5,345
Retained earnings	75,635	71,393
<b><i>Total shareholders' equity</i></b>	<b>164,147</b>	<b>159,210</b>
<b><i>Total liabilities &amp; shareholders' equity</i></b>	<b>\$ 311,368</b>	<b>\$ 299,772</b>

*The accompanying notes are an integral part of these consolidated financial statements.*

**AMERICAN PHYSICIANS SERVICE GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(Unaudited)**

(in thousands)	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>REVENUES</b>		
Gross premiums written	\$ 18,624	\$ 17,540
Premiums ceded	(149)	328
Change in unearned premiums	(2,366)	(1,411)
Net premiums earned	16,109	16,457
Investment income, net of investment expense	2,500	2,551
Realized capital losses, net	(49)	(374)
Other-than-temporary impairments	(41)	(908)
Financial services	1,440	1,448
Other revenue	56	57
<b>Total revenues</b>	<b>20,015</b>	<b>19,231</b>
<b>EXPENSES</b>		
Losses and loss adjustment expenses	6,941	6,121
Other underwriting expenses	3,159	3,221
Change in deferred policy acquisition costs	(95)	(181)
Financial services expenses	1,692	1,628
General and administrative expenses	1,466	1,224
<b>Total expenses</b>	<b>13,163</b>	<b>12,013</b>
Income from operations	6,852	7,218
Income tax expense	2,324	2,488
Net income	\$ 4,528	\$ 4,730

*The accompanying notes are an integral part of these consolidated financial statements.*





**AMERICAN PHYSICIANS SERVICE GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Unaudited)

(in thousands, except per share data)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2010</b>	<b>2009</b>
Net income per common share		
Basic:		
Net Income	\$ 0.66	\$ 0.68
Diluted:		
Net Income	\$ 0.65	\$ 0.67
Basic weighted average shares outstanding	6,857	6,994
Diluted weighted average shares outstanding	6,967	7,083

*The accompanying notes are an integral part of these consolidated financial statements.*

**AMERICAN PHYSICIANS SERVICE GROUP, INC.**  
**CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME**  
**For the three months ended March 31, 2010**  
**(Unaudited)**

(In thousands, except  
share amounts)

	Shares Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Comprehensive Income	Accumulated Other Comprehensive Income	Treasury Stock	Total Shareholders' Equity
Balance December 31, 2009	6,876,215	\$ 688	\$ 81,784	\$ 71,393		\$ 5,345	\$ -	\$ 159,210
Comprehensive income:								
Net income	-	-	-	4,528	4,528	-	-	4,528
Other comprehensive income, net of tax:								
Unrealized gain on securities, (net of reclassification adjustment)	-	-	-	-	507	507	-	507
Comprehensive income:					\$ 5,035			
Stock options expensed	-	-	112	-		-	-	112
Stock options exercised- proceeds	18,000	2	230	-		-	-	232
Stock options exercised- exchanged	5,200	-	81	-		-	-	81
Tax benefit from exercise of stock options	-	-	87	-		-	-	87
Treasury stock purchases	-	-	-	-		-	(608)	(608)
Cancelled treasury stock - purchased	(23,608)	(2)	(281)	(237)		-	520	-
Cancelled treasury stock - exchanged	(3,350)	-	(40)	(48)		-	88	-
Balance March 31, 2010	6,872,457	\$ 687	\$ 81,973	\$ 75,635		\$ 5,852	\$ -	\$ 164,147

*The accompanying notes are an integral part of these consolidated financial statements.*



**AMERICAN PHYSICIANS SERVICE GROUP, INC.**  
**CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME**  
**For the three months ended March 31, 2009**  
**(Unaudited)**

(In thousands, except  
share amounts)

	Shares Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Comprehensive Income	Accumulated Other Comprehensive Income	Treasury Stock	Total Shareholders' Equity
Balance December 31, 2008	7,014,386	\$ 701	\$ 82,329	\$ 53,067		\$ 368	\$ -	\$ 136,465
Comprehensive income:								
Net income	-	-	-	4,730	4,730	-	-	4,730
Other comprehensive income, net of tax:								
Unrealized gain on securities, (net of reclassification adjustment)	-	-	-	-	1,821	1,821	-	1,821
Comprehensive income:					\$ 6,551			
Stock options expensed	-	-	161	-		-	-	161
Stock options exercised- exchanged	30,000	3	415	-		-	-	418
Tax benefit from exercise of stock options	-	-	5	-		-	-	5
Treasury stock purchases	-	-	-	-		-	(1,506)	(1,506)
Cancelled treasury stock - purchased	(55,082)	(5)	(648)	(435)		-	1,088	-
Cancelled treasury stock - exchanged	(20,480)	(2)	(241)	(175)		-	418	-
Deferred compensation granted	2,300	-	45	-		-	-	45
Balance March 31, 2009	6,971,124	\$ 697	\$ 82,066	\$ 57,187		\$ 2,189	\$ -	\$ 142,139

*The accompanying notes are an integral part of these consolidated financial statements.*



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

(in thousands)

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Cash flows from operating activities:</b>		
Net Income	\$ 4,528	\$ 4,730
Adjustments to reconcile net income to cash provided by operating activities:		
Amortization and accretion of investments	136	28
Depreciation and amortization	109	196
Realized losses on investments	49	374
Other than temporary impairments	41	908
Change in deferred acquisition costs	(95)	(181)
Common stock awarded	-	45
Stock options expensed	112	161
Deferred income tax benefit	71	(525)
Excess tax benefits from stock-based compensation	(87)	-
Other non-cash items	-	68
Changes in operating assets and liabilities, net of business acquisition:		
Premium receivables, net	(888)	(99)
Other amounts receivable under reinsurance contracts	785	1,459
Reinsurance recoverables on unpaid and paid loss expenses	1,436	1,033
Funds held under reinsurance treaties	734	1,134
Reserve for losses and loss adjustment expenses	503	(800)
Unearned premiums	2,366	1,411
Other receivables and assets	(145)	(916)
Federal income tax receivable/payable	1,885	2,863
Accrued expenses & other liabilities	3,047	(2,168)
Net cash provided by operating activities	14,587	9,721
<b>Cash flows used in investing activities:</b>		
Capital expenditures	(91)	(81)
Proceeds from the sale and maturities of available-for-sale equity and fixed maturity securities	17,884	33,306
Purchase of available-for-sale equity and fixed maturity securities	(29,917)	(24,430)
Collection of notes receivable and other	-	125
Net cash used in investing activities	(12,124)	8,920
<b>Cash flows used in financing activities:</b>		
Excess tax benefits from stock-based compensation	87	5
Exercise of stock options	231	-
Repurchases of common stock	(520)	(1,088)
Preferred stock redemption	(1,259)	(1,195)

Edgar Filing: AMERICAN PHYSICIANS SERVICE GROUP INC - Form 10-Q

Net cash used in financing activities	(1,461)	(2,278)
<b>Net change in cash and cash equivalents</b>	<b>1,002</b>	<b>16,363</b>
Cash and cash equivalents at beginning of period	18,277	22,060
Cash and cash equivalents at end of period	\$ 19,279	\$ 38,423

*The accompanying notes are an integral part of these consolidated financial statements.*

**AMERICAN PHYSICIANS SERVICE GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**March 31, 2010**

(Unaudited)

**1.**

**Basis of Presentation**

The accompanying unaudited consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ( GAAP ) and pursuant to the rules and regulations of the Securities and Exchange Commission ( SEC ). Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. The consolidated unaudited financial statements as of and for the three month periods ended March 31, 2010 and 2009 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. These consolidated financial statements have not been audited by our independent registered public accounting firm. 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-K for the year ended December 31, 2009 filed with the SEC should be read in conjunction with this Quarterly Report on Form 10-Q.

**2.**

**Management's Estimates**

The preparation of financial statements in conformity with GAAP 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.



On an on-going basis, we evaluate our estimates, including our most significant estimates related to: reserve for losses and loss adjustment expenses; death, disability and retirement reserves; reinsurance premiums recoverable/payable; premiums ceded; deferred policy acquisition costs; impairment of assets including the fair value of investments; 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.

Although considerable judgment is inherent in these estimates, management believes that the current estimates are reasonable in all material respects. The estimates are reviewed regularly and adjusted, as necessary. Adjustments related to changes in estimates are reflected in the Company's results of operations, or other comprehensive income (OCI), in the period in which those estimates are changed.

3.

**New Accounting Pronouncements**

In January 2010, the Financial Accounting Standards Board issued Accounting Standards Update No. 2010-06, Fair Value Measurements and Disclosures (subtopic ASC 820-10). ASC 820-10 provides guidance as to how the fair value of a security may be measured, and describes three levels of inputs that may be used to measure fair value. This update requires new disclosures regarding transfers in and out of Levels 1 and 2, and activity in Level 3 fair value measurements. A reporting entity shall disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. With respect to Level 3 fair value measurements, activity in the reconciliation for these fair value measurements using significant unobservable inputs now requires the reporting entity to separately present information about purchases, sales, issuances and settlements on a gross basis instead of as a net number. This update also clarifies existing disclosures with respect to the level of aggregation disclosed and disclosures about inputs and valuation techniques. Specifically, a reporting entity shall provide fair value measurements for each class of assets and liabilities. A reporting entity shall also provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements, which are required for fair value measurements that fall in either Level 1 or Level 2. The new disclosures are effective for interim and annual reporting periods after December 15, 2009, except for disclosures about purchases, sales, issuances and settlements in the roll forward in Level 3 activity. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. We adopted the requirements of the Accounting Standards Update No. 2010-06 effective January 1, 2010.

4.

**Investments**

Available-For-Sale Fixed Maturities. Of the total \$239,988,000 portfolio balance in available-for-sale fixed income maturities at March 31, 2010, all but \$4,400,000 are considered investment grade securities.

Our entire fixed-income portfolio consists of investment grade securities rated BBB or higher by Standard and Poor's, Moody's or Fitch rating agencies with the exception of three corporate bonds and six collateralized mortgage obligations (CMOs) with a combined fair market value of approximately \$4,400,000. The following table reflects the composition of our fixed-income portfolio by security rating category of the issuer as of March 31, 2010. In cases where the rating agencies had a different rating assigned to a security, the classification in the table is the lower rating.

Rating Category	Fair Value (in thousands)	Percentage
-----------------	------------------------------	------------

AAA / Aaa	\$	163,530	68%
AA / Aa		29,627	12%
A / A		29,858	12%
BBB		12,573	5%
Non-investment grade		4,400	2%
Total	\$	239,988	100%

Available-For-Sale Equity Securities. We account for equity securities as available-for-sale. Our equity portfolio consists of \$12,190,000 in available-for-sale equity securities as of March 31, 2010.

The amortized cost and estimated fair values of investments in fixed income and equity securities at March 31, 2010 and December 31, 2009 are as follows (in thousands):

March 31, 2010	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Fixed Maturities:				
U.S. treasury notes / bills	\$ 18,218	\$ 875	\$ -	\$ 19,093
U.S. government agency mortgage-backed bonds	21,008	1,480	-	22,488
U.S. government agency collateralized mortgage obligations	40,729	2,176	23	42,882
Collateralized mortgage obligations:				
Prime CMOs	2,184	83	-	2,267
Alt A CMOs	2,237	224	-	2,461
U.S. government agency bonds / notes	21,029	234	35	21,228
Government tax-exempt bonds	35,189	1,463	-	36,652
Corporate bonds	91,501	1,483	67	92,917
Total fixed maturities	232,095	8,018	125	239,988
Equity securities	11,080	1,226	116	12,190
Total fixed maturities and equity securities	\$ 243,175	\$ 9,244	\$ 241	\$ 252,178

December 31, 2009	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Fixed Maturities:				
U.S. treasury notes / bills	\$ 19,098	\$ 897	\$ -	\$ 19,995
U.S. government agency mortgage-backed bonds	22,525	1,419	-	23,944
U.S. government agency collateralized mortgage obligations	42,762	2,169	-	44,931
Collateralized mortgage obligations:				
Alt A CMOs	2,287	114	-	2,401
Prime CMOs	2,375	25	-	2,400
U.S. government agency bonds / notes	22,052	274	64	22,262
Government tax-exempt bonds	35,212	1,584	1	36,795
Corporate bonds	72,910	983	38	73,855
Total fixed maturities	219,221	7,465	103	226,583

Equity securities	12,081	1,013	150	12,944
Total fixed maturities and equity securities	\$ 231,302	\$ 8,478	\$ 253	\$ 239,527

Of our entire invested assets at March 31, 2010, including unrestricted cash:

.

24% is comprised of agency-backed mortgage obligations, with underlying collateral consisting of GNMA, FHLMC, or FNMA loans;

.

2% is comprised of non-agency CMOs;

.

62% is comprised of U.S. Treasury, government agency bonds and notes, municipal tax exempt bonds and corporate bonds; and

.

12% is comprised of cash, equities and other invested assets.

We regularly review our fixed maturity and equity securities for declines in fair value that we determine to be other-than-temporary impairments ( OTTI ). For an equity security, if we do not have the ability and intent to hold the security for a sufficient period of time to allow for a recovery in value, we conclude that an OTTI has occurred, and the cost of the equity security is written down to the current fair value, with a corresponding charge to realized loss in our Consolidated Statements of Operations. During the three months ended March 31, 2010, we evaluated our equity portfolio for OTTI of certain securities. We based our review on a number of factors including, but not limited to, the severity and duration of the decline in fair value of the equity security as well as the cause of the decline, the length of time we have held the equity security, any third party research reports or analysis, and the financial condition and near-term prospects of the security's issuer, taking into consideration the economic prospects of the issuer's industry and geographical location. For the three months ended March 31, 2010, there were no write-downs in equity securities.

Within our portfolio at March 31, 2010, there were seven CMO securities classified as Alternative-A or Alt-A. These Alt-A securities are generally considered to have underlying mortgages with underwriting characteristics that are stronger than subprime mortgages but less stringent than prime mortgages. None of our CMOs have underlying mortgages classified as subprime. Also, all underlying mortgages of our CMOs have fixed rates.

Beginning with the three months ended September 30, 2007, we saw a significant and rapid decline in the market value of our non-agency CMOs, specifically our Alt-A securities. We have considered the deepening national housing crisis and its potential effects on the underlying collateral in evaluating this decline, and concluded that the continued decreases in value of our Alt-A securities should be considered to be OTTI. Beginning in the fourth quarter of 2008, we also began to observe an increase in the market-reported delinquency rates for not only our Alt-A CMOs, but also our non-agency CMOs backed by prime loans. The delinquency data suggests that continuing home price declines and growth in unemployment are now affecting the behavior by a broader sector of mortgage borrowers, particularly those mortgages originated subsequent to 2005. Rising unemployment, housing price declines, tight credit conditions, volatility in interest rates and weakening consumer confidence not only contributed to rising delinquencies, but also significantly impacted our expectations regarding future performance, both of which are critical to assessing our OTTI.

While we have the ability to hold our remaining non-agency CMOs to maturity, we have concluded that we have the intent to sell these securities which will further reduce our exposure to a continued deterioration of the housing sector provided we can obtain an appropriate price. For the three months ended March 31, 2010, a realized loss on our non-agency CMOs of \$41,000 was recognized in the Consolidated Statement of Operations, being the difference between the book value and their fair value as of March 31, 2010. The fair value of these securities became their new cost basis.

Additionally, due to the risk and uncertainty of the current economic crisis and the ultimate impact on the non-agency CMO market, we sold non-agency CMOs with a book value of \$17,288,000 during the twelve months ending December 31, 2009 and recognized a net realized loss of \$152,000 on the sale of these securities. As a result of these

sales, the fair market value of our non-agency CMOs has been reduced from \$25,438,000 as of December 31, 2008 to \$4,801,000 as of December 31, 2009. There were no additional sales during the three months ending March 31, 2010, and the fair market value of our non-agency CMOs is \$4,728,000 as of March 31, 2010.

The pretax charges taken as a result of OTTIs that were recognized in earnings and included in realized loss for the three months ended March 31, 2010 and 2009 were as follows (in thousands):

	<b>Three Months Ended</b>	
	<b>March 31, 2010</b>	<b>March 31, 2009</b>
Fixed Maturities:		
Collateralized mortgage obligations:		
Prime	\$ -	\$ 284
Alt-A	41	271
Total fixed maturities	41	555
Equity securities	-	353
Total fixed maturities and equity securities	\$ 41	\$ 908

The aggregate write-down on the Alt-A securities beginning with the quarter ended September 30, 2007 through March 31, 2010 is \$11,044,000 and the book value of all the Alt-A securities is \$2,237,000 as of March 31, 2010. As of March 31, 2010, outside of our Alt-A and prime CMOs as shown in the table above, no other fixed maturities were deemed to have an OTTI.

Gross realized gains and losses as result of both sales and OTTI write-downs included in net realized loss in the statement of operations for the three month periods ended March 31, 2010 and 2009 were as follows (in thousands):

	<b>Three Months Ended</b>	
	<b>March 31, 2010</b>	<b>2009</b>
Realized gains (losses):		
Fixed maturities:		
Gross realized gain	\$ 7	\$ 234
Gross realized loss	(4)	(297)
Other-than-temporary losses	(41)	(555)
Net realized loss	(38)	(618)
Equities:		
Gross realized gain	81	11
Gross realized loss	(133)	(322)
Other-than-temporary losses	-	(353)



Edgar Filing: AMERICAN PHYSICIANS SERVICE GROUP INC - Form 10-Q

Net realized gain (loss)	(52)	(664)
Total net realized loss	\$ (90)	\$ (1,282)

A summary of the amortized cost and fair market value of the Company's investments in fixed maturities as of March 31, 2010, by contractual maturity, is as follows (in thousands):

	<b>March 31, 2010</b>	
	<b>Cost or Amortized Cost</b>	<b>Estimated Fair Value</b>
Fixed maturity securities:		
Due one year or less	\$ 18,850	\$ 18,943
Due after one year through five years	92,845	94,852
Due after five years through ten years	28,982	29,819
Due after ten years	25,260	26,276
	165,937	169,890
Mortgage backed securities	66,158	70,098
Total	\$ 232,095	\$ 239,988

The following two tables reflect securities whose fair values were lower than the related cost basis at March 31, 2010 and December 31, 2009, respectively (in thousands). However, these declines in value were not deemed to constitute OTTIs. The tables show the fair value and the unrealized losses, aggregated by investment category and category of duration, of individual securities in a continuous unrealized loss position.