AMERICAN PHYSICIANS SERVICE GROUP INC
Form 10-K
March 30, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

X Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2004

--- Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

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, Suite C-300, Austin Texas	78746
(Address of principal executive offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
None	None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $0.10 par value

(Title of Class)

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 by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. |_|

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2) Yes __ No X

State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold or the average bid and asked prices of such stock, as of the last business day of the registrant's most recently completed second fiscal quarter.

Aggregate Market Value at June 30, 2004: $19,396,226

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

Title of Each Class	Number of Shares Outstanding At March 10, 2005
Common Stock, $.10 par value	2,478,667

Documents Incorporated By Reference

Selected portions of the Registrant's definitive proxy material for the 2005 annual meeting of shareholders are incorporated by reference into Part III of the Form 10-K.

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AMERICAN PHYSICIANS SERVICE GROUP, INC.

ANNUAL REPORT ON FORM 10-K

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

References in this report to "we", "us", "our", and the "Company" mean American Physicians Service Group, Inc.

PART I

ITEM 1. BUSINESS

GENERAL

We, through our subsidiaries, provide services that include brokerage and investment services to individuals and institutions, and management and agency services to malpractice insurance companies.

We were organized in October 1974 under the laws of the State of Texas. Our principal executive office is at 1301 Capital of Texas Highway, Suite C-300, Austin, Texas 78746, and our telephone number is (512) 328-0888. Our website is www.amph.com. We make available free of charge on our website our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission ("SEC").

Financial information about our industry segments is disclosed in Note 16 to our accompanying Consolidated Financial Statements in Appendix A.

OUR FINANCIAL SERVICES

Through our subsidiaries, APS Financial Corporation, or APS Financial, and

APS Asset Management, Inc., or Asset Management, we provide investment and investment advisory services to institutions and individuals throughout the United States. Our revenues from this segment were 52%, 64% and 59% of our total revenues in 2004, 2003 and 2002, respectively.

APS Financial is a fully licensed broker/dealer that provides brokerage and investment services primarily to institutional and high net worth individual clients. APS Financial also provides portfolio accounting, analysis, and other services, to insurance companies, banks, and public funds. APS Financial has its main office in Austin, Texas with branch offices in Houston, Texas and Redmond, Washington.

APS Financial charges commissions on both exchange and over-the-counter, or OTC, transactions in accordance with industry practice. When APS Financial executes OTC transactions as a dealer, it receives, in lieu of commissions, markups or markdowns.

APS Financial is a member of the National Association of Securities Dealers, Inc., or NASD, the Securities Investor Protection Corporation, or SIPC, the Securities Industry Association, and, in addition, is licensed in 44 states and Washington D.C.

Every registered broker/dealer doing business with the public is subject to stringent rules with respect to net capital requirements promulgated by the

Securities and Exchange Commission, or SEC. These rules, which are designed to measure the financial soundness and liquidity of broker/dealers, specify minimum net capital requirements. Because we (as opposed to APS Financial) are not a registered broker/dealer, we are not subject to these rules. However, APS Financial is subject to these rules. Compliance with applicable net capital requirements could limit APS Financial's operations, such as limiting or prohibiting trading activities that require the use of significant amounts of capital. A significant operating loss or an extraordinary charge against net capital could adversely affect the ability of APS Financial to expand or even maintain its present levels of business. At February 28, 2005, APS Financial was in compliance with all applicable net capital requirements.

APS Financial clears its transactions through Southwest Securities, Inc., or Southwest, on a fully disclosed basis. Southwest also processes orders and floor reports, matches trades, transmits execution reports to APS Financial and records all data pertinent to trades. APS Financial pays Southwest a fee based on the number and type of transactions.

Asset Management, a registered investment adviser under the Investment Advisers Act of 1940, was formed and registered with the SEC in 1998. We formed Asset Management to manage fixed income and equity assets for institutional and individual clients on a fee basis. Asset Management's mission is to provide clients with investment results within specific client-determined risk parameters.

OUR INSURANCE SERVICES

APS Insurance Services, Inc., or Insurance Services, is a wholly-owned subsidiary of ours. Prior to October 1, 2003, we owned 80% of Insurance Services. On October 1, 2003 we acquired the remaining 20% minority interest in Insurance Services for approximately $2.0 million in cash (see Note 14 to our consolidated financial statements included herein). Insurance Services, through its wholly-owned subsidiaries APS Facilities Management, Inc., dba APMC Insurance Services, Inc., or FMI, and American Physicians Insurance Agency, Inc., or Agency, provides management and agency services to medical malpractice insurance companies. Our revenues from this segment contributed 48%, 36% and 41% of our total revenues in 2004, 2003 and 2002, respectively.

Substantially all of our revenue from this segment was attributable to FMI providing management services to American Physicians Insurance Exchange, or APIE, a reciprocal insurance exchange, wholly-owned by its subscriber physicians. A reciprocal insurance exchange is an organization that sells insurance only to its subscribers, who pay, in addition to their annual insurance premiums, a contribution to the exchange's surplus. These exchanges generally have no paid employees but instead enter into a contract with an "attorney-in-fact" that provides all management and administrative services for the exchange. As the attorney-in-fact for APIE, FMI receives a percentage of the earned premiums of APIE, as well as a portion of APIE's profits. The amount of these premiums can be adversely affected by competition. Substantial underwriting losses, which might result in a curtailment or cessation of operations by APIE, would also adversely affect FMI's revenue and, accordingly, our revenue. To limit possible underwriting losses, APIE currently reinsures its risk in excess of $250,000 per medical incident. APIE offers medical professional liability insurance for physicians in Texas and Arkansas. FMI's assets are not subject to any insurance claims by policyholders of APIE.

APIE was organized in 1975, and FMI has been its exclusive manager since its inception. The management agreement between FMI and APIE provides for full management by FMI of the affairs of APIE under the direction of APIE's physician board of directors. Subject to the direction of this board, FMI sells and issues policies, investigates, settles and defends claims, and otherwise manages APIE's affairs. In consideration for performing its services, FMI receives a percentage fee based on APIE's earned premiums (before payment of reinsurance premiums), as well as a portion of APIE's profits. FMI pays salaries and personnel related expenses, rent and office operations costs, information technology costs and many other operating expenses of APIE. APIE is responsible for the payment of all claims, claims expenses, peer review expenses, directors' fees and expenses, legal, actuarial and auditing expenses, its taxes, outside agent commissions and certain other specific expenses. Under the management agreement, FMI's authority to act as manager of APIE is automatically renewed each year unless a majority

of the subscribers to APIE elect to terminate the management agreement by reason of an adjudication that FMI has been grossly negligent, has acted in bad faith or with fraudulent intent or has committed willful misfeasance in its management activities. Termination of FMI's management agreement with APIE would have a material adverse effect on us.

APIE is authorized to do business in the states of Texas and Arkansas, and specializes in writing medical professional liability insurance for health care providers. It writes insurance in Texas primarily through purchasing groups and is not subject to certain rate and policy form regulations issued by the Texas Department of Insurance. It reviews applicants for insurance coverage based on the nature of their practices, prior claims records and other underwriting criteria. APIE is one of the largest medical professional liability insurance companies in the State of Texas. APIE is the only professional liability insurance company based in Texas that is wholly-owned by its subscriber physicians.

Generally, medical professional liability insurance is offered on either a "claims made" basis or an "occurrence" basis. "Claims made" policies insure physicians only against claims that occur and that are reported during the period covered by the policy. "Occurrence" policies insure physicians against claims based on occurrences during the policy period regardless of when they are reported. APIE offers only a "claims made" policy in Texas and Arkansas, but provides for an extended reporting option upon termination. APIE reinsures 100% of all Texas and Arkansas coverage per medical incident between $250,000 and $1,000,000, primarily through certain domestic and international insurance companies.

The management agreement with FMI obligates APIE to pay management fees to FMI based on APIE's earned premiums before payment of reinsurance premiums. The management fee percentage is 13.5% with the provision that any profits of APIE will be shared equally with FMI so long as the total payment (fees and profit sharing) does not exceed a cap based on premium levels. In 2004, 2003, 2002, 2001 and 2000, management fees attributable to profit sharing were $1,929,000, $722,000, $0, $0 and $0, respectively. While APIE was profitable in 2001 and 2002 there was no profit sharing with FMI due to the management agreement requiring that prior year losses be applied against future pretax income. Only after prior year losses are completely offset can FMI then share equally the profits at APIE.

The following table presents selected financial and other data for APIE:

	Years Ended December 31,		
	2004	2003	2002
	(Unaudited, in thousand, except for nu		
Earned premiums before reinsurance premiums	$64,296	$51,904	$46,078
Total assets	131,152	102,728	80,721
Total surplus	21,238	15,783	12,985
Management fees (including profit sharing) and commissions (1)	10,604	7,789	6,221
Number of insureds	3,623	3,073	3,181

(1) This amount includes management fees and commissions paid to FMI and Agency in addition to commissions of $1, $513, $3,103, $2,886 and $1,898 in 2004, 2003, 2002, 2001 and 2000, respectively, paid to other carriers directly related to APIE's controlled business.

OUR OTHER INVESTMENTS

At December 31, 2004, we owned less than 2% of the outstanding common stock of HealthTronics, Inc, or HealthTronics (successor by merger to Prime Medical Services, Inc.), having reduced our ownership from 15% with the sale of 1,591,000 shares during 2002. Prior to that sale we recorded our pro-rata share

of HealthTronics' earnings using the equity method of accounting. As a result of our reduced ownership, we now account for our investment as an available-for-sale equity security, with changes in market value, net of tax, reflected in shareholders' equity as "accumulated other comprehensive income." HealthTronics is the largest provider of lithotripsy services in the United States, currently servicing approximately 830 hospitals and surgery centers in

47 states. Lithotripsy is a non-invasive method of treating kidney stones through the use of shock waves. HealthTronics is also an international supplier of specialty vehicles for the transport of high technology medical, broadcast/communications and homeland security equipment. At December 31, 2004, our investments in HealthTronics securities include common stock and fixed income securities with an aggregate fair market value of $6,844,000 and a cost basis of approximately $2,788,000. A material decline in the value of this investment could have a material adverse effect on our financial condition and results of operations.

The common stock of HealthTronics is quoted on the NASDAQ National Market under the symbol "HTRN". HealthTronics is a Georgia corporation and is required to file annual, quarterly and other reports and documents with the SEC. The summary information in the accompanying consolidated financial statements regarding HealthTronics is qualified in its entirety by reference to such reports and documents. Such reports and documents may be examined and copies may be obtained from the SEC.

On June 4, 2003 we purchased from Financial Industries Corporation ("FIC")(OTC: FNIN.PK) and foundation 339,879 shares of FIC's common stock as an investment. Earlier in 2003 we had purchased 45,121 FIC shares in the open market. The 385,000 shares represent an approximate 4% ownership in FIC. The aggregate purchase price was approximately $5,647,000, which was all sourced from our cash reserves. 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. Due to FIC's delay in filing its 2003 Form 10-K and its March 31, 2004, June 30, 2004 Forms 10-Q, it has not been able to register these shares and was delisted from the NASDAQ exchange in July 2004. Subsequently, FIC was delinquent in filing its September 30, 2004 Form 10-Q.

By September 30, 2004, the value of our investment in FIC had declined significantly. On October 12, 2004, we determined that this decline in market price was "other than temporary" as defined in Statements of Financial Accounting Standards (SFAS) No. 115, Accounting for Certain Investments in Debt and Equity Securities. Consequently, we recorded a pretax charge to earnings of $2,374,000 in the third quarter 2004. The charge reduced our cost basis in FIC from $5,647,000, or $14.67 per share, to $3,273,000, or $8.50 per share, which is equal to the quoted market price of FIC shares on September 30, 2004. By December 31, 2004, the value of our investment in FIC had declined further. On December 31, 2004, we determined that this decline in market price should be considered "other than temporary". Consequently, we recorded a pretax charge to earnings of $193,000 in the fourth quarter 2004. The charge reduced our cost basis in FIC from $3,273,000, or $8.50 per share, to $3,080,000, or $8.00 per share, which is equal to the quoted market price of FIC shares on December 31, 2004.

As discussed in our Forms 10-Q dated June 30 and September 30, 2004, we believe the decline in the market price of FIC has been brought about by its failure to file its 2003 Form 10-K and its subsequent de-listing from the NASDAQ Stock Market. We had expected FIC to bring its filings current and pursue restoring its exchange listing but these events have not yet occurred. While we currently continue to have the ability and the intent to hold the stock indefinitely, we concluded that the additional uncertainty created by the late filings together with the lack of current financial information dictated that the decline should be viewed as other than temporary. We will continue the policy during 2005 of monitoring and evaluating the situation at FIC and further determining if changes in fair market value of the investment are temporary or "other than temporary".

As part of our initial acquisition of FIC common stock, we were granted an option 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 this option is exercisable. We have assigned no value to this option.

FIC is a Texas corporation and is required to file annual, quarterly and other reports and documents with the SEC. (The summary information in the accompanying consolidated financial statements regarding FIC is qualified in its entirety by reference to such reports and documents.) Such reports and documents, prior to December 31, 2003, may be obtained from the SEC.

DISCONTINUED OPERATIONS

Effective November 1, 2002, we completed the sale of APS Consulting to its management as we determined the division's operations were not consistent with our long-term strategic plan. 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%. Our existing contract, which was entered into on October 1, 2002, states that we will provide administrative support services to APS Consulting for a period of approximately seven years remains in effect. Our fees that we will provide 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. Because we were dependent upon the future successful operation of the division to collect our proceeds from the disposal and because we had a security interest in the assets of the division, we had retained a sufficient risk of loss to preclude us from recognizing the divestiture of APS Consulting under the guidance of FASB Interpretation No 46. Accordingly, we did not recognize the divestiture of APS Consulting and continued 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 occurred.

Effective November 1, 2003, APS Consulting was able to obtain third party financing and repay their note payable to us in exchange for our agreeing to discount the note by $35,000. We provided no guarantees or credit enhancements in connection with APS Consulting securing this financing. Accordingly, we no longer have a risk of loss related to these operations and have recognized the transaction as a divestiture. As a result, we ceased consolidation of APS Consulting financial statements effective November 1, 2003. In addition, we were able to recognize a gain of $27,000, net of tax, and administrative support fees totaling $47,000 in 2004 and $98,000 in 2003.

COMPETITION

APS Financial and Asset Management are both engaged in a highly competitive business. Their competitors include, with respect to one or more aspects of their business, all of the member organizations of the New York Stock Exchange and other registered securities exchanges, all members of the NASD, registered investment advisors, members of the various commodity exchanges and commercial banks and thrift institutions. Many of these organizations are national rather than regional firms and have substantially greater personnel and financial resources than us. In many instances APS Financial is competing directly with these organizations. In addition, there is competition for investment funds from the real estate, insurance, banking and thrift industries.

APIE competes with several insurance carriers, including Medical Protective Insurance Company, Texas Medical Liability Trust, ProAssurance, The Doctors Company, Advocate MD and the Texas Medical Liability Insurance Underwriting

Association (JUA), which is the State sponsored insurer of last resort. APIE does not have the capacity to write the volume of business equal to that of the other major carriers. Great focus has been given to the area of underwriting and the selection of our insured physicians. With the successful passing of tort reform in late 2003, there is an increased likelihood of additional companies re-entering the Texas market. APIE anticipates maintaining its market share through a combination of unique and tailored coverages, and a continued commitment to claims, risk management and underwriting services.

REGULATION

APS Financial and Asset Management are subject to extensive regulation under both federal and state laws. The SEC is the federal agency charged with administration of the federal securities and investment advisor laws. Much of the regulation of broker/dealers, however, has been delegated to self-regulatory organizations, principally the NASD and the national securities exchanges. These self-regulatory organizations adopt rules (subject to approval by the SEC) which govern the industry and conduct periodic examinations of member broker/dealers. APS Financial is also subject to regulation by state and District of Columbia securities commissions.

The regulations to which APS Financial is subject cover all aspects of the securities business, including sales methods, trade practices among broker/dealers, uses and safekeeping of customers' funds and securities, capital structure of securities firms, record keeping and the conduct of directors, officers and employees. Additional legislation, changes in rules promulgated by the SEC and by self-regulatory organizations, or changes in the interpretation or enforcement of existing laws and rules, may directly affect the method of operation and profitability of APS Financial and, accordingly, us. The SEC, self regulatory organizations and state securities commissions may conduct administrative proceedings which can result in censure, fine, suspension or expulsion of APS Financial, its officers or employees. The principal purpose of regulation and discipline of broker/dealers is the protection of customers and the securities markets, rather than protection of creditors and shareholders of broker/dealers.

APS Financial, as a registered broker/dealer and NASD member organization, is required by federal law to belong to the SIPC. When the SIPC fund falls below a certain minimum amount, members are required to pay annual assessments in varying amounts not to exceed .5% of their adjusted gross revenues to restore the fund. The SIPC fund provides protection for customer accounts up to $500,000 per customer, with a limitation of $100,000 on claims for cash balances.

FMI has received certificates of authority from the Texas and Arkansas insurance departments, licensing it on behalf of the subscribers of APIE. APIE, as an insurance company, is subject to regulation by the insurance departments of the States of Texas and Arkansas. These regulations strictly limit all financial dealings of a reciprocal insurance exchange with its officers, directors, affiliates and subsidiaries, including FMI. Premium rates, advertising, solicitation of insurance, types of insurance issued and general corporate activity are also subject to regulation by various state agencies.

REVENUES AND INDUSTRY SEGMENTS

The information required by Regulation S-K Items 101(b) and 101(d) related to financial information about segments and financial information about sales contained in Note 16 of our consolidated financial statements, which are included in this Annual Report on Form 10-K.

EMPLOYEES

At March 1, 2005, we employed, on a full time basis, approximately 109 persons, including 56 by Insurance Services, 44 by APS Financial and Asset Management, and 9 directly by us. We consider our employee relations to be good. None of our employees are represented by a labor union and we have experienced no work stoppages.

Executive Officers

As of March 15, 2005, our executive officers were as follows:

Name	Age	Position
Kenneth S. Shifrin	55	Chairman of the Board, President and Chief Executive Officer
William H. Hayes	57	Senior Vice President -Finance, Secretary, and Chief Financial Officer
Maury L. Magids	40	Senior Vice President - Insurance
Thomas R. Solimine	46	Controller

Our officers serve until the next annual meeting of our directors and until their successors are elected and qualified (or until their earlier death, resignation or removal).

Mr. Shifrin has been our Chairman of the Board since March 1990. He has been our President and Chief Executive Officer since March 1989 and he was President and Chief Operating Officer from June 1987 to February 1989. He has been a director of ours since February 1987. From February 1985 until June 1987, Mr. Shifrin served as our Senior Vice President - Finance and Treasurer. Mr. Shifrin also has been a director of Financial Industries Corporation since June 2003 and was Chairman of the Board of Prime Medical Services, Inc. from October 1989 until November 2004. With the merger of Prime Medical and HealthTronics, Mr. Shifrin became Vice-chairman of the Board of HealthTronics in November 2004. Mr. Shifrin is a member of the World Presidents Organization.

Mr. Hayes has been our Senior Vice President - Finance since June 1995. Mr. Hayes was our Vice President from June 1988 to June 1995 and was our Controller from June 1985 to June 1987. He has been our Secretary since February 1987 and our Chief Financial Officer since June 1987. Mr. Hayes is a Certified Public Accountant.

Mr. Magids has been our Senior Vice President - Insurance Services since June 2001 and has been President and Chief Operating Officer of FMI since November 1998. Mr. Magids joined us in October 1996. Mr. Magids is a Certified Public Accountant and was with Arthur Andersen LLP from August 1986 until September 1996, most recently as Director of Business Development.

Mr. Solimine has been our Controller since June 1994. He has served as Secretary for APS Financial since February 1995. From July 1989 to June 1994, Mr. Solimine served as our Manager of Accounting.

There are no family relationships, as defined, among any of our executive officers, and there is no arrangement or understanding between any of our executive officers and any other person pursuant to which he or she was selected as an officer. Each of our executive officers was elected by our board of directors to hold office until the next annual election of officers and until his or her successor is elected and qualified or until his or her earlier death, resignation or removal. Our board of directors elects our officers in conjunction with each annual meeting of our shareholders.

AVAILABLE INFORMATION

We file annual, quarterly, and current reports, proxy statements, and other documents with the SEC under the Securities Exchange Act of 1934 (the "Exchange Act"). You may read and copy any materials that we file with the SEC at the SEC's public reference room at 450 Fifth Street, NW, Washington, DC 20549. The public may obtain information on the operation of the public reference room by

calling the SEC at 1-800-SEC-0330. Also, the SEC maintains a website that contains these SEC filings. You can obtain these filings at the SEC's website at http://www.sec.gov.

We also make available free of charge on or through our website (http://www.amph.com) our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and, if applicable, amendments to those reports filed or furnished pursuant to Section 13(a) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

ITEM 2. PROPERTIES

We lease approximately 23,000 square feet of office space from HealthTronics in an office project at 1301 Capital of Texas Hwy., Suite C-300, Austin, Texas as our principal executive offices.

We also lease office space for our financial services subsidiary at 1011 Hwy 6 South, Suite 120, Houston, Texas, and 7981 168th Ave, N.E. Suite 108, Redmond, Washington.

We also lease office space for our insurance services subsidiary at 5401 North Central Expressway, Suite 316, LB #B4, Dallas, Texas.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted during the fourth quarter of the fiscal year covered by this report to a vote of security holders, through the solicitation of proxies or otherwise.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is currently listed on the NASDAQ Small Cap Market under the symbol AMPH. The following table sets forth the range of the quarterly high and low bid prices for the last three fiscal years.

	2004		2003	
	High	Low	High	Low
First Quarter	$14.08	$8.31	$4.29	$3.51
Second Quarter	$14.92	$8.51	$5.49	$3.58
Third Quarter	$10.24	$8.50	$5.67	$4.51
Fourth Quarter	$10.49	$9.51	$10.77	$5.10

There were approximately 250 holders of record of our common stock on March 1, 2005.

In 2004, we declared a cash dividend of $.20 per share of common stock amounting to a total cash outlay of approximately $518,000. Prior to 2004, we have never declared or paid any cash dividends on our common stock. Our policy has been to retain our earnings to finance growth and development, and therefore do not anticipate paying any cash dividends on our common stock in the foreseeable future. The declaration and payment of any dividends on the Common Stock would be at the sole discretion of our Board of Directors, subject to our financial condition, capital requirements, future prospects and other factors deemed relevant.

The following table represents securities authorized for issuance under equity compensation plans, as described in Note 12 to the consolidated financial statements at December 31, 2004, included herein.

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights.	Weighted-average exercise price of outstanding options, warrants and rights.	a
	(a)	(b)	
Equity Compensation plans approved by security holders	721,000	$6.04	

Equity compensation plans not approved by security holders	none	none
Total	721,000	$6.04

The following table represents stock repurchases during the fourth quarter of 2004:

(d)

Period	(a) Total Number of shares Purchased (1)	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Annonuced Plans or Programs
Oct. 1, 2004-Oct. 31, 2004	4	$ 10.00	4
Nov. 1, 2004-Nov. 30, 2004	7,900	$ 9.86	7,900
Dec. 1, 2004-Dec. 31, 2004	14,899	$ 10.20	14,899

(1) Of the total shares purchased 10,799 were purchased in open market transactions and 12,004 were purchased in private transactions. Our share repurchase program was announced August 17, 2004 and authorizes the purchase of up to $2 million of common stock.

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ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with our Consolidated Financial Statements and Notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in Item 7 of this Annual Report.

	2004	2003	2002

Selected Income Statement Data:			
Revenues	$ 32,021	$ 30,449	$ 23,077
Income from continuing operations before interest, income taxes, minority interests and equity in loss of unconsolidated affiliates	3,097	4,090	5,554
Income from continuing operations	2,152	2,772	3,156
Net income	$ 2,152	$ 2,799	$ 3,411
Per Share Amounts:			
Basic: Income from continuing operations	$ 0.85	$ 1.26	$ 1.42
Net income	0.85	1.27	1.53
Diluted: Income from continuing operations	0.76	1.13	1.35
Net income	$ 0.76	$ 1.14	$ 1.45
Diluted weighted average shares outstanding	2,838	2,449	2,345
Cash dividends	$ 0.20	--	--
Selected Balance Sheet Data:			
Total assets	$ 30,443	$ 25,638	$ 24,981
Long-term obligations	1,133	1,576	2,665
Total liabilities	$ 6,229	$ 6,532	$ 7,455
Minority interests	1	-	384
Total equity	$ 24,213	$ 19,106	$ 17,142

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

Our statements contained in this report 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. You should not place undue reliance on forward-looking statements. All forward-looking statements included in this report are based on information available to us on the date hereof, 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 in the forward-looking statements. In addition to any risks and uncertainties specifically identified in the text surrounding the forward-looking statements, you should consult our reports on Forms 10-Q and our other filings under the Securities Act of 1933 and the Securities Exchange Act of 1934, for factors that could cause our actual results to differ materially from those presented.

The forward-looking statements included herein 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 judgments 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 our control. Any of these assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this report will prove to be accurate.

GENERAL

We provide (1) financial services, including brokerage and investment services to individuals and institutions, and (2) insurance services, including management and agency services to medical malpractice insurance companies.

FINANCIAL SERVICES. We provide investment and investment advisory services to institutions and individuals throughout the United States through the following subsidiaries:

- APS FINANCIAL. APS Financial is a fully licensed broker/dealer that provides brokerage and investment services primarily to institutional and high net worth individual clients. APS Financial also provides portfolio accounting, analysis, and other services to insurance companies, banks and public funds. We recognize commissions revenue, and the related compensation expense, on a trade date basis.

- ASSET MANAGEMENT. Asset Management manages fixed income and equity assets for institutional and individual clients on a fee basis. We recognize fee revenues monthly based on the amount of funds under management.

INSURANCE SERVICES. Through Insurance Services we provide management and agency services to medical malpractice insurance companies through the following subsidiary:

- FMI. FMI provides management and administrative services to APIE, a regional insurance exchange that sells medical professional liability insurance only to its physician subscribers, who pay annual insurance premiums and surplus contributions to APIE. APIE is governed by a physician board of directors. Pursuant to a management agreement and the direction of this board, FMI manages and operates APIE, including performing policy issuance, claims investigation and settlement, and all other management and operational functions. As a management fee, FMI receives a percentage of APIE's earned premiums and a portion of APIE's profit, subject to a cap based on premium levels. We recognize revenues for the management fee portion based on a percentage of earned premium on a monthly basis, and we recognize revenues for the management fee portion based on profit sharing when it is reasonably certain the managed company will have an annual profit, generally in the fourth quarter. FMI's assets are not subject to APIE policyholder claims.

In addition, as of December 31, 2004, we have the following significant investments accounted for as available-for-sale securities: (1) we own approximately 555,000 shares of HealthTronics common stock, representing approximately 2% of its outstanding common stock, (2) we own 385,000 shares of Financial Industries Corporation, representing approximately 4% of its outstanding common stock. Our policy is to account for investments as available-for-sale securities. This requires that we assess fluctuations in fair value and determine whether these fluctuations are temporary or "other than temporary" as defined in Statements of Financial Accounting Standards (SFAS) No. 115, Accounting for Certain Investments in Debt and Equity Securities. Temporary changes in fair value are recognized as unrealized gains or losses excluded from earnings and reported as a separate component of stockholder's equity, net of income taxes. Should a decline in an investment be deemed other than temporary, as was the case with our investment in FIC during the third and fourth quarters of 2004, pretax charges to earnings will be taken in the period in which the impairment is considered to be other than temporary.

We also invested approximately $4,903,000 from surplus cash in low risk governmental and corporate fixed income securities. These securities are carried at fair value with unrealized gains and losses, net of taxes, reported in equity as a component of accumulated other comprehensive income. As above, we would recognize an impairment charge to earnings in the event a decline in fair value below the cost basis of one of these investments is determined to be other-than-temporary.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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 and estimates 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. Revenues related to securities transactions are recognized on a trade date basis.

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, as defined in the management agreement, 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 customers' 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.

In 2002 we accounted for APS Consulting as a variable interest entity under the guidance of FIN 46 "Consolidation of Variable Interest Entities". We had not recognized the divestiture of APS Consulting and continued to consolidate the division as an entity in which we had a variable interest that would absorb the majority of the entity's operating losses should they have occurred. Effective November 1, 2003, APS Consulting paid off the negotiated remainder of the note due us, allowing us to cease accounting for them as a variable interest entity. Consequently, we have reclassified the 2002 income statement and balance sheets to reflect the disposition of APS Consulting as a discontinued operation.

We account for our equity and fixed income securities as available-for-sale. In the event a decline in fair value of an investment occurs, management may be required to determine if the decline in market value is other than temporary. Management's assessments as to the nature of a decline in fair value are based on the quoted market prices at the end of a period, the length of time an investment's fair value has been in decline and our ability and intent to hold the investment. If the fair value is less than the carrying value and the decline is determined to be other than temporary, an appropriate write-down is recorded against earnings.

RESULTS OF OPERATIONS

OVERVIEW AND BUSINESS OUTLOOK

In 2004, we saw substantial improvement in operating income from our insurance services segment compared to 2003. While revenues and operating income were down in our financial services segment in 2004 compared to 2003, its financial results still proved to be the second best in its history. As we look forward to 2005, there are both opportunities and impediments to continued growth.

APS Financial, the broker/dealer division of our financial services segment, recorded a solid year in 2004 but fell short of the record year it enjoyed in both revenues and net profit in 2003. The market for investment grade fixed income securities was negatively impacted by low treasury rates while a rich high yield market led to low spreads for non-investment grade securities, leading to lower demand for both products. Improving upon 2004 will depend upon a combination of more favorable bond market conditions as well as continued minimal loss of personnel and growth of clients. Non-variable operating expenses will certainly be higher in 2005 as a result of Sarbanes-Oxley compliance requirements despite the recent SEC deferral of SOX 404 reporting for non-accelerated filers until December 2006.

For commission revenue generation, bullish, unstable markets provide us with the most opportunity. Conversely, stable, bearish markets pose the greatest difficulty in generating income. Uncertainty in world, political and economic events can also be an obstacle to revenue generation. Investors may take a wait and see attitude should uncertainty exist.

Although we have been fortunate in retaining our key salespersons for many years, a loss of one or more key individuals and/or a loss of one or more key accounts is possible and could have a material adverse effect upon earnings.

The nature of the broker/dealer business and the current litigious legal environment in which we operate means that there is always the possibility of one or more lawsuits being brought against us. Claims against broker/dealers generally rise in periods of down markets and the more prolonged a downturn, generally the greater risk of litigation.

APS Insurance Services enjoyed a record year in 2004 in both revenues and operating income. Total surplus at APIE grew almost 28% in 2004 compared to 2003. If APIE's surplus continues to grow, this would continue to increase the financial strength of the company and its capacity to write new business and therefore increase the amount of profit in which we would be able to share. For 2005, we expect non-variable operating expenses to remain consistent, with the exception of professional fees, which will be much higher as a result of Sarbanes-Oxley compliance requirements.

The insurance segment is greatly affected by the profitability of the medical malpractice insurance company that we manage. Significant increases in claims brought against our insured doctors would negatively affect the profitability of APIE, and consequently, the amount of profit, if any, we would be able to share in. This risk has been reduced by lowering the limits of liability on the physicians APIE insures coupled with providing policies that cap our overall exposure. Further, there was passage of tort and insurance reform in the State of Texas in 2003. The new legislation capped non-economic damages and placed restrictions on mass litigation. As a result of tort reform, competitors have begun to re-enter the State of Texas, which could result in pressure to lower rates or a reduction in the number of insurance policies written by APIE.

2004 COMPARED TO 2003

Revenues from operations increased $1,572,000 (5%) compared to 2003. Our operating income increased $1,381,000 (35%) to $5,344,000 in 2004 compared to $3,963,000 in 2003. Our net earnings decreased $647,000 (23%) in 2004 to a total of $2,152,000 compared to net earnings of $2,799,000 in 2003. Our diluted earnings per share decreased to $0.76 in 2004 compared to $1.14 in 2003. The reasons for these changes are described below.

FINANCIAL SERVICES

Our financial services revenues decreased $2,918,000 (15%) in 2004 compared to 2003. Although commission revenues in 2004 were the second highest in APS Financial's twenty-three year history, they were down compared to 2003, which saw record commission revenues at APS Financial. Our broker/dealer derives most of its revenue from trading in the fixed income market, both in investment and non-investment grade securities. Revenue from both grade securities was lower. Investment grade markets are typically linked to treasury rates, which continued to trade in 2004 at a historically low yield levels. Customers have been cautious on committing funds, particularly to longer maturing instruments, thus negatively impacting trading revenues. Also, in 2004 the U.S. high yield markets were almost universally considered over-valued, trading at historically low spreads to treasuries. Again, this contributed to a reluctance of our customers to commit funds, and contributed to lower revenues.

Our financial services expense decreased $2,046,000 (12%) in 2004 compared to 2003. The primary reason for the current year decrease is a $1,714,000 (15%) decrease in commission expense resulting from the decrease in commission revenue at APS Financial mentioned above. In addition, net profits before management

incentive costs decreased at APS Financial by $1,284,000 (29%) resulting in a $530,000 (33%) decrease in the current year formula driven incentive compensation costs. Partially offsetting these decreases was an increase in payroll costs of $108,000 (8%) in 2004 resulting from normal annual merit raises as well as the hiring of two new full-time positions. In addition, there were relatively minor current year increases in employee benefits, professional fees and information services.

INSURANCE SERVICES

Our insurance services revenues from our premium-based insurance management segment, APS Insurance Services, increased $4,490,000 (41%) in 2004 compared to 2003. One of the primary reasons for the current year growth is an increase of $1,207,000 (167%) in profits shared with APIE. The total amount of profit sharing recognized in 2004 was $1,929,000, all of which was recognized during the fourth quarter of 2004, after profit sharing goals were attained. In 2003, we recognized all of that year's total of $722,000 in profit sharing during the fourth quarter as well. As the certainty of profits at APIE cannot be fully known until an end-of-year actuarial analysis by independent actuaries, we cannot predict what, if any, profits will be available to us until this analysis is complete. Another main reason for the growth in revenues in 2004 was a $1,607,000 (23%) increase in management fees resulting from greater insurance premium volumes. Earned premium increased at APIE by 24% in 2004 compared to 2003 primarily as a result of new business and strong retention of our existing business in the current year. Lastly, commission income increased $1,435,000 (47%) in 2004 compared to 2003, resulting from approximately $15,040,000 in additional written premium in the current year. As noted below, commissions paid to third party independent agents increased by an equivalent amount, resulting in no impact on net income.

Insurance services expenses at our insurance management subsidiary increased $1,976,000 (23%) in 2004 compared to 2003. The current year increase is primarily due to the $1,435,000 (47%) increase in commissions paid to third party independent agents. In addition, payroll expense increased $208,000 (8%) and formula driven incentive compensation expense increased $206,000 (39%) in 2004 compared to 2003. Payroll expense was up in the current year due primarily to normal annual merit raises in addition to personnel additions made in the latter half of 2003 that were expensed the entire year in 2004. Among the additions was a high-level management position to help meet our growing financial reporting requirements. The increase in formula driven incentive compensation cost was the result of an increase in segment operating profits. Excluding incentive compensation costs, pre-tax profits at our insurance segment rose $2,679,000 (95%). Lastly, depreciation and amortization costs were $102,000 (74%) higher in 2004 compared to 2003 as a result of amortizing the non-compete agreement that was created upon the repurchase of the 20% minority interest in October, 2003 for a full year compared to only three months in 2003. Partially offsetting these increases was a $176,000 (79%) decrease in advertising in 2004 compared to 2003, a result of re-branding efforts of the business performed in 2003.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses increased $309,000 (23%) in 2004 compared to 2003. The current year increase was primarily due to higher incentive compensation expense which was $126,000 (19%) greater in 2004 on substantially higher operating income in the current year. Other professional fees were $40,000 (136%) higher in 2004 primarily as a result of fees incurred in connection with Sarbanes-Oxley internal control procedures. Also, director's fees increased $59,000 (64%) as a result of a higher fee structure implemented in 2004 as well as an increased number of board and committee meetings compared to 2003. Partially offsetting these increases was a decrease in legal fees of $29,000 (32%) in 2004, the result of non-recurring fees incurred in 2003 in connection with our investment in Financial Industries Corporation, or FIC.

GAIN ON SALE OF ASSETS

Gain on sale of assets primarily represents the recognition of deferred income. Approximately $760,000 of the $5,100,000 deferred gain on the sale of real estate to Prime Medical (its name prior to the merger with HealthTronics, Inc.) in 2001 was due to our ownership interest in Prime Medical and is recognized upon the reduction of our ownership percentage in Prime Medical through the sale of its stock. In 2004, we recognized approximately $56,000 from the sale of a higher number of shares of Prime Medical common stock versus 2003, when a gain of $8,000 was recorded.

GAIN ON SALE OF INVESTMENTS

Gain on the sale of investment increased $118,000 (93%) in 2004 compared to 2003 as a result of gains from the sale of a greater number of available-for-sale equity securities sold in the current year.

LOSS FROM IMPAIRMENT OF INVESTMENT

The current year loss was due to a write-down of our investment in FIC common stock. During 2004 in accordance with SFAS 115, we determined that the decline in market value of FIC common stock was other than temporary and we recorded pretax charges to earnings totaling $2,567,000. These charges reduced our cost basis in FIC from $5,647,000, or $14.67 per share, to $3,080,000, or $8.00 per share which is equal to the quoted market price of FIC shares on December 31, 2004. We believe the decline in the market price of FIC has been brought about by its failure to file its 2003 Form 10-K and its subsequent de-listing from the NASDAQ Stock Market. We had expected FIC to bring its filings current and pursue restoring its exchange listing but these events have not yet occurred. While we currently continue to have the ability and the intent to hold the stock indefinitely, we have concluded that the additional uncertainty created by the late filings together with the lack of current financial information dictates that the decline should be viewed as other than temporary.

AFFILIATES EARNINGS (LOSS)

Our equity in the earnings of Prime Medical (its name prior to the merger with HealthTronics, Inc.) was zero in 2004 as well as 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, our Chairman and CEO, stepped down from day-to-day operations as Executive Chairman of the Board of Prime Medical, but continued to serve as non-executive Chairman. Mr. Shifrin further reduced his responsibilities on Prime's Board to Vice-Chairman in 2004; and (2) from January to March 19, 2002, we sold 1,570,000 shares of Prime Medical common stock reducing our ownership percentage in 2002 to approximately 5%.

Our equity in earnings of Uncommon Care was zero in 2004, $260,000 in 2003 and a loss of $230,000 in 2002. Because our total investment and advances to Uncommon Care has been reduced to zero, we suspended 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 Uncommon Care's management that we would make no further advances, we recorded equity in earnings of unconsolidated affiliates in the amount of $260,000 related to cash received from Uncommon Care. We expect no further receipts of cash from Uncommon Care and consequently expect to record no additional income in the future.

INTEREST INCOME

Our interest income increased $61,000 (20%) in 2004 compared to 2003 primarily as a result of a higher balance of interest-bearing securities held in 2004. At December 31, 2004 we had a balance of $4,903,000 in fixed income securities versus a balance of $897,000 at December 31, 2003.

OTHER INCOME (LOSS)

Our other income increased $53,000 in 2004 as a result of a write-down taken in 2003 totaling $120,000 on an equity investment. Partially offsetting this was a decrease of $51,000 in administrative fee income from Eco-Systems in 2004 resulting from their decreased earnings.

MINORITY INTERESTS

Minority interests represents the combination of two outside interests in our subsidiaries: a twenty percent interest in Insurance Services owned by FPIC Insurance Group, Inc. and a three percent interest in APS Asset Management or

APSAM, a subsidiary within our financial services segment, owned by key individuals within APS Asset Management. Minority interests decreased in the current year due to the repurchase of the 20% minority interest in Insurance Services from the minority interest holder, FPIC Insurance Group, effective October 1, 2003. Consequently, only nine months of minority interest was recorded in 2003 compared to a full year in 2002. During 2004, minority interest was recorded only at APSAM and amounted to just $1,000.

DISCONTINUED OPERATIONS

Effective November 1, 2003 APS Consulting paid off the negotiated remaining amount of the note payable to us. Even though we had sold this segment to APS Consulting's management exactly one year earlier, we continued to consolidate their revenues, expenses and balance sheet items because we were dependent upon future successful operations of the division to collect our proceeds from the disposal and we did not transfer risk of loss to discontinue reporting them on our consolidated financial statements. With the payoff of the note, we recognized the divesture and now report APS Consulting as a discontinued operation. Accordingly, 2002 has been reclassified to remove revenues and expenses from our consolidated statements of operations and after-tax results of this former division are now recorded as income from discontinued operations in 2002. For 2003, only the after-tax gain on disposal of the segment is recorded as earnings from APS Consulting. There was no effect in 2004.

CASH FLOWS

For the year ended December 31, 2004 our cash provided by operations increased $852,000 (19%) compared to 2003 as a result of the increase in operating income at our insurance services segment. Cash used in investing activities increased $1,127,000 (35%) in 2004 compared to 2003 as a result of proceeds from the sale of available-for-sale equity securities during 2003, which were much greater than those received in 2004. Cash provided by financing activities decreased $1,339,000 (153%) in 2004 as a result of fewer options exercised compared to 2003, a greater number of treasury stock shares purchased during 2004 and cash dividends paid in 2004.

2003 COMPARED TO 2002

Revenues from operations increased $7,372,000 (32%) compared to 2002. Our net income from continuing operations decreased $384,000 (12%) to $2,772,000 in 2003 from $3,156,000 in 2002. Our net earnings decreased $612,000 (18%) in 2003 to a total of $2,799,000 compared to net earnings of $3,411,000 in 2002. Our diluted earnings per share decreased to $1.14 in 2003 compared to $1.45 in 2002. The reasons for these changes are described below.

FINANCIAL SERVICES

Our financial services revenues increased $6,000,000 (44%) in 2003 compared to 2002. The increase was due to strong commission revenues at APS Financial. APS Financial derives most of its revenue from trading in the fixed income market, both in investment grade and non-investment grade securities. While revenue from investment grade transactions increased, revenue derived from the high yield market was particularly strong, as that sector performed particularly well throughout 2003, as evidenced by various high yield indices rising as much

as 29% compared to 2002. Also, we continued to have very low turnover in personnel, which gives us a better probability of maintaining our customer accounts.

Our financial services expense increased $4,708,000 (40%) in 2003 compared to 2002. The primary reason for the 2003 year increases is a $3,808,000 (50%) increase in commission expense resulting from the increase in commission revenue at APS Financial mentioned above. In addition, net profits before management incentive costs increased at APS Financial by $2,053,000 (79%) resulting in a $762,000 (88%) increase in the current year formula driven management incentive costs. Payroll related benefit costs were up $144,000 (25%) in 2003 as a result of a 27% increase in health insurance costs as well as higher payroll taxes as a result of much higher earnings by commissioned brokers. Partially offsetting these increases were relatively minor current year decreases in ticket charges, information services, depreciation and advertising costs.

INSURANCE SERVICES

Our insurance services revenues from our premium-based insurance management segment, APS Insurance Services, increased $1,372,000 (15%) in 2003 compared to 2002. The primary reason for the 2003 increase was that we recognized profit sharing with APIE in 2003 for the first time since 1999. The total amount of profit sharing recognized in 2003 was $722,000, all of which was recognized during the fourth quarter of 2003, after profit sharing goals were attained. As the certainty of profits at APIE cannot be fully known until an end-of-year actuarial analysis by independent actuaries, we cannot predict what, if any, profits will be available to us until this analysis is complete. Further contributing to the 2003 increase in revenues was a $644,000 (10%) increase in management fees resulting from greater insurance premium volumes. The increase in 2003 premiums was primarily the result of rate increases throughout 2002 and 2003.

Insurance services expenses at the insurance management subsidiary increased $976,000 (13%) in 2003 compared to 2002. The 2003 increase was primarily due to a $309,000 (13%) increase in payroll expense, a 201,000 (37%) increase in overhead allocation charged by the holding company, APS Group, a $81,000 (15%) increase in management incentive expense, a $73,000 (32%) increase in employee benefits, and a $130,000 (143%) increase in advertising. The 2003 increase in payroll was due primarily to the 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. In addition, two high-level management positions were added in 2003 to expand our business development and to meet growing financial reporting requirements. The increase in management incentive cost was the result of an increase in segment operating profits. As was the case with our investment services segment, employee benefit costs rose in the current year as a result of an increase in health insurance costs. Lastly, advertising costs were higher in 2003 as a result of re-branding efforts of the business.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses decreased $83,000 (6%) in 2003 compared to 2002. The primary reason for the current year decrease was a $201,000 (37%) decrease in overhead allocated to APS Insurance Services. In addition, other professional fees was $48,000 lower in 2003 as outside consulting fees were incurred in 2002 to ascertain the value of a certain investment. Partially offsetting these decreases was a $37,000 (6%) increase in management incentive expense resulting from substantially higher operating income in the current year. Legal fees were $143,000 higher in 2003 primarily as a result of fees incurred in connection with our investment in FIC. Insurance expense was $45,000 (90%) higher in 2003 on increased directors' and officers' liability insurance premiums. Audit fees were $37,000 (40%) higher in 2003 as a result of new SEC and accounting regulations implemented during the year.

GAIN ON SALE OF ASSETS

Gain on sale of assets primarily represents the recognition of deferred income. Approximately $760,000 of the $5,100,000 deferred gain on the sale of real estate to Prime Medical (its title prior to the merger) in 2001 was due to our ownership interest in Prime Medical and is recognized upon the reduction of our ownership percentage in HealthTronics through the sale of its stock. In 2002, as a result of selling 1,570,000 shares of Prime Medical common stock, we recognized a proportionate percentage of the deferred gain, or about $515,000. During 2003, we sold 24,000 shares of Prime Medical common stock and recognized a gain of $8,000.

GAIN ON SALE OF INVESTMENTS

Gain on the sale of investments decreased $2,728,000 (96%) in 2003 compared to 2002. The 2003 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 1,570,000 shares compared to 24,000 shares sold in 2003. Gains resulting from sales of Prime Medical common stock were $64,000 and $2,855,000 in 2003 and 2002, respectively. As a result of these sales, as of December 31, 2003, we owned approximately 728,000 shares of Prime Medical amounting to an ownership percentage of approximately 4%. In addition to the sale of Prime Medical shares we sold a number of fixed income securities in 2003, which resulted in gains comprising the majority of the remaining income reported.

AFFILIATES EARNINGS (LOSS)

Our equity in the earnings of Prime Medical was zero in 2003 as we no longer accounted 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, our Chairman and CEO, stepped down from day-to-day operations as Executive Chairman of the Board of Prime Medical, but continued 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 approximately 5%.

Our equity in earnings of Uncommon Care increased to $260,000 in 2003 compared to a loss of $230,000 in 2002. Because our total investment and advances to Uncommon Care has been reduced to zero we suspended 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 Uncommon Care's management that we would make no further advances, we recorded equity in earnings of unconsolidated affiliates in the amount of $260,000 related to cash received from Uncommon Care. We expect no further receipts of cash from Uncommon Care and consequently expect to record no additional income in the future.

INTEREST INCOME

Our interest income decreased $68,000 (18%) in 2003 compared to 2002 primarily as a result of a higher balance of interest-bearing securities held in 2002. In June 2003, we liquidated approximately $4.0 million in interest-bearing securities in order to secure the funds required to invest in 385,000 shares of FIC common stock.

OTHER LOSS

Our other loss decreased $120,000 (76%) in 2003 compared to 2002. The primary reason for the current year decrease in loss was the result of management fees received in 2003 from our former consulting division, which totaled $98,000.

MINORITY INTERESTS

Minority interests represents the combination of two outside interests in our subsidiaries: a twenty percent interest in Insurance Services owned by FPIC Insurance Group, Inc. and a three percent interest in APS Asset Management, a subsidiary within our financial services segment, owned by key individuals within APS Asset Management. Minority interests decreased in the current year due to the repurchase of the 20% minority interest in Insurance Services from the minority interest holder, FPIC Insurance Group, effective October 1, 2003. Consequently, only nine months of minority interest was recorded in 2003 compared to a full year in 2002.

DISCONTINUED OPERATIONS

Effective November 1, 2003 APS Consulting paid off the negotiated remaining amount of the note payable to us. Even though we had sold this segment to APS Consulting's management exactly one year earlier, we continued to consolidate their revenues, expenses and balance sheet items because we were dependent upon future successful operations of the division to collect our proceeds from the disposal and we did not transfer risk of loss to discontinue reporting them on our consolidated financial statements. With the payoff of the note we recognized the divesture and now report APS Consulting as a discontinued operation. Accordingly, 2002 has been reclassified to remove revenues and expenses from our consolidated statements of operations and after-tax results of this former division are now recorded as income from discontinued operations in 2002. For 2003, only the after-tax gain on disposal of the segment is recorded as earnings from APS Consulting.

LIQUIDITY AND CAPITAL RESOURCES

WORKING CAPITAL

Our net working capital was $10,673,000 and $8,537,000 at December 31, 2004 and 2003, respectively. The increase in the current year was due primarily to cash received from operations. Partially offsetting these increases to working capital in 2004 was an increase of $296,000 in accrued commissions payable at our broker/dealer subsidiary resulting from increased commission earned in December 2004 compared to December 2003. Historically, we have maintained a strong working capital position and, as a result, we have been able to satisfy our operational and capital expenditure requirements with cash generated from our 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 there can be no assurance our operating activities will provide positive cash flow in 2005, we are optimistic that our working capital requirements will be met for the foreseeable future for the following reasons: (1) our current cash position is very strong, with a balance of approximately $9.7 million comprising 32% of our total assets; (2) our investments in available-for-sale equity and fixed income securities could provide an additional $14.3 million should the need arise; and (3) we renewed a line of credit in April 2004 that is described below.

LINE OF CREDIT

During April 2004, we renewed a $3.0 million line of credit that was originally established in November 2003 with PlainsCapital Bank. The loan calls for interest payments only to be made on any amount drawn until April 15, 2005, when the entire amount of the note, principal and interest then remaining unpaid, shall be due and payable. At December 31, 2004, there were no draws taken against this line of credit. We are in compliance with the covenants of the loan agreement, including requirements for a minimum of $5.0 million of unencumbered liquidity and a minimum 2 to 1 net worth ratio.

CAPITAL EXPENDITURES

Our capital expenditures for equipment were $421,000 and $223,000 in 2004 and 2003, respectively. Our capital expenditures were higher in 2004 due to purchases necessary to upgrade our reporting software at our insurance services

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subsidiary. At December 31, 2004, our reporting software upgrade is considered to be "in progress" with anticipated implementation in phases during 2005 and 2006. As the assets purchased during 2004 have not been placed in service, they are appropriately not being depreciated. We expect capital expenditures in 2005 to be approximately $495,000, including another $250,000 in improvements to our business intelligence reporting software. Our 2005 capital expenditure budget is expected to be funded through cash on hand.

Commitments

There were no participation agreements or purchase commitments at December 31, 2004. We have committed cash outflow related to operating lease arrangements with a term exceeding one year at December 31, 2004 as follows (in thousands):

			Payment Due			
Contractual Cash Obligations	2005	2006	2007	2008	2009	Total
Operating Leases	$845	$551	$32	$19	$5	$1,452

MARGIN LOANS

We extend credit to our customers, which is financed through our clearing organization, Southwest Securities, Inc. or Southwest, to help facilitate customer securities transactions. This credit, which earns interest income, is known as "margin lending". In margin transactions, the client pays a portion of the purchase price of securities, and we make a loan (financed by our clearing organization) to the client for the balance, collateralized by the securities purchased or by other securities owned by the client.

In permitting clients to purchase on margin, we are subject to the risk of a market decline, which could reduce the value of our collateral below the client's indebtedness. Agreements with margin account clients permit our clearing organization to liquidate our clients' securities with or without prior notice in the event of an insufficient amount of margin collateral. Despite those agreements, our clearing organization may be unable to liquidate clients' securities for various reasons including the fact that the pledged securities may not be actively traded, there is an undue concentration of certain securities pledged, or a trading halt is issued with regard to pledged securities. If the value of the collateral were insufficient to repay the margin loan, a loss would occur, which we may be required to fund. As of December 31, 2004, the total of all customer securities pledges on debit balances held in margin accounts was approximately $10.5 million while the total value of the securities within these margin accounts was approximately $80.1 million. We are also exposed should Southwest be unable to fulfill its obligations for securities transactions.

Our ability to make scheduled payments or to fund planned capital expenditures will depend on our future performance, which, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. There can be no assurance that our business will generate cash flow from operations or that we will realize anticipated revenue growth and operating improvements sufficient to make scheduled payments and fund planned future capital expenditures.

INFLATION

Our operations are not significantly affected by inflation because, having no manufacturing operations, we are not required to make large investments in fixed assets. However, the rate of inflation will affect certain of our expenses, such as employee compensation and benefits.

IMPACT OF NEW ACCOUNTING STANDARDS

As more fully described in Note 1 of Notes to Consolidated Financial Statements, on July 1, 2005, we are required to adopt several new accounting standards. For a discussion of the impact of those new accounting standards upon us, see Note 1 (n).

ITEM 7A. QUANITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

We have exposure to changes in interest rates and the market values of our investments but have no material exposure to fluctuations in foreign currency.

INTEREST RATE RISK

Our exposure to market risk for changes in interest rates relates to both our investment portfolio and our revenues generated through commissions at our financial services segment. All of our marketable fixed income securities are designated as available-for-sale and, accordingly, are presented at fair value on our balance sheets. Fixed rate securities may have their fair market value adversely affected due to a rise in interest rates, and we may suffer losses in principal if forced to sell securities that have declined in market value due to changes in interest rates.

Changes in interest rates could have an impact at our broker/dealer subsidiary, APS Financial. The general level of interest rates may trend higher or lower in 2005, and this move may impact our level of business in different fixed-income sectors. If a generally improving economy is the impetus behind higher rates, then while our investment grade business may drop off, our high yield business might improve with improving credit conditions. A volatile interest rate environment in 2005 could also impact our business as this type of market condition can lead to investor uncertainty and their corresponding willingness to commit funds.

As we currently have no debt and do not anticipate the need to take on any debt in 2005, interest rate changes will have no impact on our financial position as it pertains to interest expense.

INVESTMENT RISK

As of December 31, 2004, our recorded basis in debt and equity securities was approximately $14.3 million. We regularly review the carrying value of our investments and identify and record losses when events and circumstances indicate that such declines in the fair value of such assets below our accounting basis are other-than-temporary. During 2004, the value of one of our investments, FIC, had declined significantly. On October 12, 2004, we determined that this decline in market price was "other than temporary" as defined in Statements of Financial Accounting Standards (SFAS) No. 115, Accounting for Certain Investments in Debt and Equity Securities. Consequently, we recorded a pretax charge to earnings of $2,374,000 in the third quarter of 2004. The charge reduced our cost basis in FIC from $5,647,000, or $14.67 per share, to $3,273,000, or $8.50 per share which was equal to the quoted market price of FIC shares on September 30, 2004. We believe the decline in the market price of FIC has been brought about by its failure to file its 2003 Form 10-K and its subsequent de-listing from the NASDAQ Stock Market. We had expected FIC to bring its filings current and pursue restoring its exchange listing by September 30, 2004. As of February 28, 2005 these events have still not occurred. Consequently, we have determined that we will continue to write this investment down to period-end fair market value until such time as FIC brings its public filings current. Accordingly, during the fourth quarter of 2004, we recorded as additional pretax charge to earnings of $193,000 which further reduced our basis in FIC to $3,080,000, or $8.00 per share. While we currently continue to have the ability and the intent to hold the stock indefinitely, we concluded that the additional uncertainty created by the late filings together with the lack of current financial information dictated that these declines should be viewed as other than temporary. The effect on our financial statements as a result of these write-downs was to reduce pre-tax income by $2,567,000, decrease unrealized holding losses in Other Comprehensive Income by $1,694,000 and decrease deferred tax assets by $873,000. We will continue to closely monitor FIC's situation.

We also have an investment of 555,000 shares of common sock of HealthTronics, Inc. Although we have an unrealized gain of approximately $3,149,000 as of December 31, 2004, this investment can also be at risk should market or economic conditions change for the worse or should adverse situations occur at HealthTronics, such as a major product line becoming obsolete. The remainder of our corporate equity and fixed income investments share the same risks as HealthTronics but our exposure is much lower.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this item is contained in Appendix A attached hereto.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

We maintain controls and other procedures that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. In response to recent legislation, we implemented changes to our disclosure controls and procedures, primarily to formalize and document procedures already in place, and to establish a disclosure committee consisting of some of our officers and other management.

As of the end of the period covered by this report, and under the supervision and with the participation of our management, including our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer), we evaluated the effectiveness of the design and operation of these disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective.

We do not expect that our disclosure controls and procedures or our other internal controls can prevent all error and all fraud or that our evaluation of these controls and procedures can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. The benefits of controls and procedures must be considered relative to their costs, and the design of any system of controls is based in part upon assumptions about the likelihood of future events. There can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls and procedures may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of these and other inherent limitations in controls and procedures, misstatements or omissions due to error or fraud may occur and not be detected.

Subsequent to the date of our evaluation described above, we have not made any significant changes in our internal controls or in other factors that could significantly affect these controls.

ITEM 9B. OTHER INFORMATION

None.

PART III

Certain information required by Part III is omitted from this Form 10-K because we will file a definitive Proxy Statement pursuant to Regulation 14A, or Proxy Statement, not later than 120 days after the end of the fiscal year covered by this Form 10-K, and certain information to be included therein is incorporated herein by reference.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item is incorporated by reference to the Proxy Statement under the heading "Directors and Executive Officers of the Registrant".

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to the Proxy Statement under the heading "Information Regarding Executive Officer Compensation."

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item is incorporated by reference to the Proxy Statement under the heading "Security Ownership of Certain Beneficial

Owners and Management."

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is incorporated by reference to the Proxy Statement under the heading "Certain Relationships and Related Transactions."

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is incorporated by reference to the Proxy Statement under the heading "Corporate Governance - Committees of the Board of Directors - The Audit Committee."

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. Consolidated Financial Statements

The information required by this item is contained in Appendix A attached hereto.

2. Financial Statement Schedule (Schedule II)

(b) Exhibits (1)

3.1 Restated Articles of Incorporation of the Company, as amended. (5)

3.2 Amended and Restated Bylaws of the Company. (5)

4.1 Specimen of Common Stock Certificate. (2)

4.2 Rights Agreement, dated as of August 15, 2000, between American Physicians Service Group, Inc. and American Stock Transfer & Trust Company, which includes the form of Statement of Resolutions setting forth the terms of the Junior Participating Preferred Stock, Series A, the form of Rights Certificate as Exhibit B and the Summary of Rights to Purchase Preferred Shares as Exhibit C. (10)

*10.1 1995 Incentive and Non-Qualified Stock Option Plan of American Physicians Service Group, Inc. (6)

*10.2 Form of Stock Option Agreement (ISO). (6)

*10.3 Form of Stock Option Agreement (Non-Qualified). (6)

10.4 Management Agreement of Attorney-in-Fact, dated August 13, 1975, between FMI and American Physicians Insurance Exchange. (2)

*10.5 Profit Sharing Plan and Trust, effective December 1, 1984, of the Company. (3)

*10.6 First Amendment to 1995 Incentive and Non-Qualified Stock Option Plan of American Physicians Service Group, Inc. Dated December 10, 1997.

*10.7 First Amendment to 1995 Non-Employee Director Stock Option Plan of American Physicians Service Group, Inc. Dated December 10, 1997. (8)

10.8 Contribution and Stock Purchase Agreement dated January 1, 1998 between the Company, Additional Purchasers, Barton Acquisition, Inc., Barton House, Ltd., Barton House at Oakwell Farms, Ltd., Uncommon Care, Inc., George R. Bouchard, John Trevey and Uncommon Partners, Ltd. (9)

10.9 Loan Agreement dated January 1, 1998 between the Company and Barton Acquisition, Inc. (9)

10.10 Promissory Note (Line of Credit) dated January 1, 1998 between the Company and Barton Acquisition, Inc. in the amount of $2,400,000. (9)

10.11 Security Agreement dated January 1, 1998 between the Company and Barton Acquisition, Inc. (9)

10.12 Participation Agreement dated march 16, 1998 between the Company and Additional Purchasers referred to as Participants. (9)

10.13 Convertible Promissory Note dated April 27, 1999 between the Company and Uncommon Care, Inc. (10)

10.14 Replacement Convertible Promissory Note dated September 30, 1999 between the Company and Uncommon Care, Inc. (10)

10.15 Liquidity Promissory Note dated September 30, 1999 between the Company and Uncommon Care, Inc. (10)

10.16 Replacement Liquidity Note dated October 15, 1999 between the Company and Uncommon Care, Inc. (10)

10.17 $1.25 million Promissory Note dated June 1, 2000 between the Company and Uncommon Care, Inc. (11)

10.18 $1.20 million Promissory Note dated June 1, 2000 between the Company and Uncommon Care, Inc. (11)

10.19 Agreement dated November 22, 2002 transferring and assigning all capital stock of Eco-Systems from the Company to the purchaser. (13)

*10.20 Amended 1995 Incentive and Non-Qualified Stock Option Plan (13)

10.21 Executive Employment Agreement between the Company and Kenneth S. Shifrin. (13)

*10.22 Consulting Agreement between the Company and William A. Searles. (13)

*10.23 Executive Employment Agreement between the Company and William H. Hayes. (13)

10.24 Stock Purchase Agreement dated October 31, 2003 between the Company and FPIC Insurance Group, Inc. (13)

10.25 Revolving Promissory Note dated April 15, 2004 between the Company and PlainsCapital Bank. (14)

10.26 Commercial Loan Agreement dated April 15, 2004 between the Company and PlainsCapital Bank. (14)

21.1 List of subsidiaries of the Company. (14)

23.1 Independent Auditors Consent of BDO Seidman, LLP. (14)

31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (14)

31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (14)

32.1 Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (14)

32.2 Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (14)

(*) Executive Compensation plans and arrangements.

(1) The Company is subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and, in accordance therewith, files reports, proxy statements and other information with the Securities and Exchange Commission. Reports, proxy statements and other information filed by the Company can be inspected and copied at the public reference facilities maintained by the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, and at the Commission's Regional Offices at Seven World Trade Center, 13th Floor, New York, New York 10048 and CitiCorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511. Copies of such material can be obtained by mail from the Public Reference Section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. Such reports, proxy statements and other information concerning the Company are also available for inspection at the offices of The NASDAQ National Market, Reports Section, and 1735 K STREET, N.W., WASHINGTON, D.C. 20006. The Commission maintains a Web site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the Commission at http://www.sec.gov and makes available the same documents through Disclosure, Inc. at 800-638-8241.

(2) Filed as an Exhibit to the Registration Statement on Form S-1, Registration No. 2-85321, of the Company, and incorporated herein by reference.

(3) Filed as an Exhibit to the Annual Report on Form 10-K of the Company for the year ended December 31, 1984 and incorporated herein by reference.

(4) Filed as an Exhibit to the Current Report on Form 8-K of the Company dated September 5, 1989 and incorporated herein by reference.

(5) Filed as an Exhibit to the Annual Report on Form 10-K of the Company for the year ended December 31, 1990 and incorporated herein by reference.

(6) Filed as an Exhibit to the Annual Report on FORM 10-K of the Company for the year ended December 31, 1995 and incorporated herein by reference.

(7) Filed as an Exhibit to the Annual Report on FORM 10-K of the Company for the year ended December 31, 1996 and incorporated herein by reference.

(8) Filed as an Exhibit to the Annual Report on Form 10-K of the Company for the year ended December 31, 1997 and incorporated herein by reference.

(9) Filed as an Exhibit to the Annual Report on Form 10-K of the Company for the year ended December 31, 1998 and incorporated herein by reference.

(10) Filed as an Exhibit to the Annual Report on Form 10-K of the Company for the year ended December 31, 1999 and incorporated herein by reference.

(11) Filed as an Exhibit to the Annual Report on Form 10-K of the Company for the year ended December 31, 2000 and incorporated herein by reference.

(12) Filed as an Exhibit to the Annual Report on Form 10-K of the Company for the year ended December 31, 2002 and incorporated herein by reference.

(13) Filed as an Exhibit to the Annual Report on Form 10-K of the Company for the year ended December 31, 2003 and incorporated herein by reference.

(14) Filed herewith

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AMERICAN PHYSICIANS SERVICE GROUP, INC.

By: /s/ Kenneth S. Shifrin

Kenneth S. Shifrin, Chairman of the Board
and Chief Executive Officer

Date: March 29, 2005

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Kenneth S. Shifrin

Kenneth S. Shifrin
Chairman of the Board and
Chief Executive Officer
(Principal Executive Officer)

Date: March 29, 2005

By: /s/ W. H. Hayes

W. H. Hayes

Senior Vice President - Finance, Secretary
and Chief Financial Officer
(Principal Financial Officer)

Date: March 29, 2005

By: /s/ Thomas R. Solimine

Thomas R. Solimine
Controller
(Principal Accounting Officer)

Date: March 29, 2005

By: /s/ Jackie Majors

Jackie Majors, Director

Date: March 29, 2005

By: /s/ Robert L. Myer

Robert L. Myer, Director

Date: March 29, 2005

By: /s/ William A. Searles

William A. Searles, Director

Date: March 29, 2005

By: /s/ Cheryl Williams

Cheryl Williams, Director

Date: March 29, 2005

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APPENDIX A

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
American Physicians Services Group, Inc.
Austin, Texas

We have audited the accompanying consolidated balance sheets of American Physicians Services Group, Inc. as of December 31, 2004 and 2003, and the related consolidated statements of income, stockholders' equity and comprehensive income (loss), and cash flows for each of the three years in the period ended December 31, 2004. We have also audited the schedule listed in Item 15. These financial statements and the schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and schedule are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. According, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and schedule, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and schedule. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of American Physicians Services Group, Inc. at December 31, 2004 and 2003, and the results of its operations and its cash flows for the each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth herein.

BDO Seidman, LLP

Houston, Texas
March 4, 2005

AMERICAN PHYSICIANS SERVICE GROUP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Year En
	2004
Revenues:	
Financial services	$16,705
Insurance services	15,316
Total revenues	32,021
Expenses:	
Financial services	14,538
Insurance services	10,558
General and administrative	1,637
Gain on sale of assets	(56)
Total expenses	26,677
Operating income	5,344
Gain on sale of investments (Note 5)	245
Loss from impairment of investment (Note 5)	(2,567)
Gain	

Cash flows from investing activities

Acquisition of business

(696.8
)

Capital expenditures

(53.8
)

(56.7
)

Net proceeds from sale of Season-All

14.0

Proceeds from sale of property, plant and equipment

.5

14.8

Net cash flow used in investing activities

(53.3
)

(724.7
)

Cash flows from financing activities

Short-term borrowings, net

(29.2
)

524.4

Long-term debt borrowings

255.0

Long-term debt repayments

(50.2
)

(150.3
)

Proceeds from exercised stock options

13.7

47.6

Common stock acquired by purchase

(9.3
)

Dividends paid

(94.0
)

(85.5
)

Net cash flow (used in) provided by financing activities

(159.7

)

581.9

Effect of exchange rate changes on cash and cash equivalents

6.9

11.9

Decrease in cash and cash equivalents

(11.0
)

(15.6
)

Cash and cash equivalents at beginning of period

38.9

45.9

Cash and cash equivalents at end of period

$
27.9

$
30.3

See notes to condensed consolidated financial statements (unaudited).

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McCORMICK & COMPANY, INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all the information and notes required by United States generally accepted accounting principles for complete financial statements. In our opinion, the accompanying condensed consolidated financial statements contain all adjustments, which are of a normal and recurring nature, necessary to present fairly the financial position and the results of operations for the interim periods.

The results of consolidated operations for the three and nine month periods ended August 31, 2009 are not necessarily indicative of the results to be expected for the full year. Historically, our consolidated sales, net income and cash flow from operations are lower in the first half of the fiscal year and increase in the second half. The increase in sales, earnings and cash flow from operations in the second half of the year is mainly due to the U.S. consumer business cycle, where customers typically purchase more products in the fourth quarter due to the holiday season.

For further information, refer to the consolidated financial statements and notes included in our Annual Report on Form 10-K for the year ended November 30, 2008.

Accounting and Disclosure Changes

In May 2009, the Financial Accounting Standards Board (FASB) issued guidance regarding subsequent events (events or transactions occurring after the balance sheet date but before issuance of our financial statements). This new accounting pronouncement is effective for our third quarter of 2009 and we have evaluated subsequent events through October 8, 2009, the date these financial statements were issued.

In December 2008, the FASB issued guidance on providing disclosures about plan assets of an employer s defined benefit pension plan. This will be effective for our year ending November 30, 2010.

In March 2008, the FASB issued a standard intended to improve financial reporting by requiring disclosures about the location and amounts of derivative instruments in an entity s financial statements; how derivative instruments and related hedged items are accounted for under current standards; and how derivative instruments and related hedged items affect its financial position, financial performance and cash flows. We began making

McCORMICK & COMPANY, INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

these new disclosures in the first quarter of 2009 (see Note 9 for further details).

In December 2007, the FASB issued a standard that outlines the accounting and reporting for ownership interest in a subsidiary held by parties other than the parent company (previously referred to as minority interests). This new accounting pronouncement is effective for our first quarter of 2010 and we do not expect any material impact on our financial statements from adoption.

In December 2007, the FASB issued a standard on business combinations. This standard establishes principles and requirements for how an acquirer recognizes and measures the identifiable assets acquired, the liabilities assumed, any minority interest in the acquiree and the goodwill acquired. This standard also establishes disclosure requirements which will enable users to evaluate the nature and financial effects of the business combination. It is effective for us for acquisitions made after November 30, 2009 and its implementation may have a material impact on our financial statements for businesses we acquire post-adoption.

In September 2006, the FASB issued a standard that requires us to (a) record an asset or a liability on our balance sheet for our pension plans overfunded or underfunded status (b) record any changes in the funded status of our pension and postretirement plans in the year in which the changes occur (reported in comprehensive income) and (c) measure our pension and postretirement assets and liabilities at November 30 versus our current measurement date of September 30. We complied with the requirement to record the funded status and provided additional disclosures with our financial statements for our year ended November 30, 2007. Effective with our first quarter of 2009 financial statements, we complied with the portion of the standard to eliminate the difference between our plans measurement date and our November 30 fiscal year-end. The standard provides two approaches to transition to a fiscal year-end measurement date, both of which are to be applied prospectively. We elected to apply the transition option under which a 14-month measurement period (from September 30, 2008 through November 30, 2009) was used to determine our 2009 fiscal year pension expense. Because of the 14-month measurement period, we recorded a $2.3 million ($1.5 million, net of tax) decrease to retained earnings with a corresponding increase to other long-term liabilities effective December 1, 2008.

In September 2006, the FASB issued a standard that defines fair value and provides guidance for measuring fair value and the necessary disclosures. This standard does not require any new fair value measurements but rather applies to all other accounting pronouncements that require or permit fair value measurements. In line with the requirements, we adopted this standard for financial assets and liabilities in the first quarter of 2008 and we adopted

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McCORMICK & COMPANY, INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

it for non-financial assets and liabilities in the first quarter of 2009 (see Note 10 for further details). Additional pronouncements have been issued by the FASB providing guidance and clarification on measuring fair value. There were no material effects upon adoption of this new accounting pronouncement on our financial statements and we do not expect any material impact on our financial statements from the additional pronouncements when they become effective.

Reclassifications

Other receivables of $41.5 million and $34.0 million have been reclassified from Trade accounts receivable, net to Prepaid expenses and other current assets on our August 31, 2008 and November 30, 2008 consolidated balance sheets, respectively to conform to the current year presentation. The effect of these reclassifications is not material to the condensed consolidated financial statements.

2. ACQUISITIONS

Acquisitions of brands are part of our growth strategy to increase sales and profits and improve margins.

In July 2008, we completed the purchase of the assets of the Lawry s business from Conopco, Inc., an indirect subsidiary of Unilever N.V. Lawry s manufactures and sells a variety of marinades and seasoning blends under the well-known Lawry s brand in North America. The acquisition included the rights to the brands as well as related inventory and a small number of dedicated production lines. It did not include any manufacturing facilities or employees. The distribution of Lawry s sales is approximately 90% to our consumer segment and 10% to our industrial segment.

The purchase price was $604 million in cash, the assumption of certain liabilities relating to the purchased assets and transaction costs of $11.5 million. We used cash on hand and borrowings under our commercial paper program to initially fund the purchase price. In September 2008 we issued $250 million in medium term debt ($248 million in net proceeds) to repay a portion of our outstanding commercial paper issued to fund the Lawry s acquisition. The transaction has undergone a regulatory review and the Federal Trade Commission issued its final order. In compliance with that order, we sold our Season-All business to Morton International, Inc in July 2008. With annual sales of approximately $18 million, the Season-All business was sold for $15 million in cash (with net cash proceeds of $14 million). This resulted in a pre-tax gain of $12.9 million which was recorded as part of Other income in our income statement during the third quarter of 2008.

During the quarter ending August 31, 2009, we completed the final valuation of assets for Lawry s which resulted in $9.4 million

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McCORMICK & COMPANY, INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

being allocated to tangible net assets, $62.4 million allocated to other intangibles assets and $543.2 million allocated to goodwill. This final valuation reflects a $135.5 million transfer from brands and other intangible assets to goodwill from the preliminary valuation recorded in July 2008. The resulting change to amortization expense was not material. The value for brands and other intangible assets consists of $14.4 million which is amortizable and $48.0 million which is non-amortizable. The applicable amortization expense is included in the income statement. The weighted average amortization period for the amortizable intangible assets is 23.8 years. For tax purposes, goodwill resulting from the acquisition is deductible.

In these financial statements we have not included pro-forma historical information, as if the results of Lawry s had been included from the beginning of the periods presented, since the use of forward-looking information would be necessary in order to meaningfully present the effects of the acquisition. Forward looking information, rather than historical information, would be required as Lawry s was operated as a part of a larger business within Unilever and the expense structure and level of brand support would have been different under our ownership. Net sales for the three and nine months ended August 31, 2009 from this acquisition were $27.1 million and $98.7 million, respectively. Net sales for the three and nine months ended August 31, 2008 from this acquisition were $12.4 million.

In February 2008, we purchased Billy Bee Honey Products Ltd. (Billy Bee) for $76.4 million in cash, a business which operates in North America and is primarily included in our consumer segment from the date of acquisition. Billy Bee markets and sells under the Billy Bee brand. The annual sales of this business were approximately $35.0 million at the time of acquisition and include branded, private label and industrial products.

During the quarter ending February 28, 2009, we completed the final valuation of assets for Billy Bee which resulted in $5.7 million being allocated to tangible net assets, $12.0 million allocated to other intangibles assets and $58.7 million allocated to goodwill. This valuation was not significantly different than the preliminary valuation recorded in February 2008. The value for brands and other intangible assets consists of $4.1 million which is amortizable and $7.9 million which is non-amortizable. The applicable amortization expense is included in the income statement.

3. EARNINGS PER SHARE AND STOCK ISSUANCES

The following table sets forth the reconciliation of average shares outstanding (in millions):

	Three months ended August 31,		Nine months ended August 31,	
	2009	**2008**	**2009**	**2008**
Average shares outstanding basic	130.9	129.3	130.6	128.7

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McCORMICK & COMPANY, INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Effect of dilutive securities:				
Stock options, Restricted Stock Units (RSUs) and employee stock purchase plan	1.5	3.0	1.5	2.9
Average shares outstanding diluted	132.4	132.3	132.1	131.6

The following table sets forth the stock options and employee stock purchase plans for the three and nine months ended August 31, 2009 and 2008 which were not considered in our earnings per share calculation since they were anti-dilutive.

	Three months ended August 31,		Nine months ended August 31,	
	2009	**2008**	**2009**	**2008**
Anti-dilutive securities	4.5	1.0	4.3	3.3

The following table sets forth the common stock activity for the three and nine months ended August 31, 2009 and 2008 under the Company s stock option and employee stock purchase plans and the repurchases of common stock under its stock repurchase program (in millions):

	Three months ended August 31,		Nine months ended August 31,	
	2009	**2008**	**2009**	**2008**
Shares issued under stock option and employee stock purchase plans and RSUs	.2	1.2	.8	2.4
Shares repurchased in connection with the stock repurchase program		.2		.2

As of August 31, 2009, $39 million remained of the $400 million share repurchase authorization.

4. COMPREHENSIVE INCOME

The following table sets forth the components of comprehensive income (in millions):

	Three months ended August 31,		Nine months ended August 31,	
	2009	**2008**	**2009**	**2008**
Net income	$ 75.1	$ 68.6	$ 183.5	$ 173.4
Other comprehensive income (loss), (net of tax):				
Pension and other postretirement costs, net of tax of $- and ($0.6), for the three months ended, respectively, and $ and ($1.3), for the nine months ended, respectively	(.3)	3.6	(1.9)	5.6
Foreign currency translation adjustments	20.4	(90.5)	139.0	(37.9)
Derivative financial instruments, net of tax of $0.2 and ($2.9) for the three months ended, respectively, and $1.6 and ($3.1) for the nine months ended, respectively	(.5)	5.4	(3.9)	5.9

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Comprehensive income	$ 94.7	$ (12.9)	$ 316.7	$ 147.0

The following table sets forth the components of accumulated other comprehensive income, net of tax where applicable (in millions):

	August 31, 2009	August 31, 2008	November 30, 2008
Foreign currency translation adjustment	$ 245.2	$ 308.7	$ 106.2
Unrealized gain on foreign currency exchange contracts	.3	0.8	4.8
Unamortized value of settled interest rate swaps	(6.2)	(7.0)	(6.8)
Pension and other postretirement costs	(58.1)	(68.7)	(56.1)
Accumulated other comprehensive income	$ 181.2	$ 233.8	$ 48.1

5. PENSION AND POSTRETIREMENT BENEFITS

The following table presents the components of our pension expense of the defined benefit plans for the three months ended August 31 (in millions):

	United States		International	
	2009	2008	2009	2008
Defined benefit plans				
Service cost	$ 2.1	$ 2.7	$ 1.2	$ 1.5
Interest costs	7.0	6.5	2.7	3.0
Expected return on plan assets	(7.0)	(6.6)	(3.1)	(3.2)
Amortization of prior service costs			.1	.1
Recognized net actuarial loss	.2	1.2		.5
Total pension expense	$ 2.3	$ 3.8	$ .9	$ 1.9

The following table presents the components of our pension expense of the defined benefit plans for the nine months ended August 31 (in millions):

	United States		International	
	2009	2008	2009	2008
Defined benefit plans				
Service cost	$ 6.3	$ 8.0	$ 3.4	$ 4.6
Interest costs	20.9	19.6	7.6	8.9
Expected return on plan assets	(21.0)	(19.8)	(8.6)	(9.5)
Amortization of prior service costs	.1		.2	.2
Recognized net actuarial loss	.7	3.6		1.6

Total pension expense	$ 7.0	$ 11.4	$ 2.6	$ 5.8

During the three and nine months ended August 31, 2009, we made $12 million and $35 million, respectively, in contributions to our major U.S. pension plan. During the three and nine months ended August 31, 2008, we did not make any contributions to our major U.S. pension plan. Contributions to international plans and our nonqualified U.S. plan are generally funded throughout the year. For the nine months ended, we have made $53.8 million in

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McCORMICK & COMPANY, INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

contributions to our U.S. and international pension plans. We estimate that total contributions to our pension plans in the fourth quarter of 2009 will be approximately $5 million. Therefore, our total estimated pension contributions for 2009 are expected to be approximately $59 million. Total contributions to our pension plans in fiscal year 2008 were $15.6 million.

The following table presents the components of our other postretirement benefits expense (in millions):

	Three months ended August 31,		Nine months ended August 31,	
	2009	**2008**	**2009**	**2008**
Other postretirement benefits				
Service cost	$ .8	$ .9	$ 2.4	$ 2.6
Interest costs	1.7	1.6	5.0	4.8
Amortization of prior service costs	(.9)	(.3)	(2.7)	(1.0)
Amortization of (gains)/losses	(.1)	.2	(.3)	.7
Curtailment			(.3)	
Total other postretirement expense	$ 1.5	$ 2.4	$ 4.1	$ 7.1

6. STOCK-BASED COMPENSATION

The following table sets forth the stock-based compensation recorded in selling, general and administrative (SG&A) expense (in millions):

	Three months ended August 31,		Nine months ended August 31,	
	2009	**2008**	**2009**	**2008**
Stock-based compensation expense	$ 2.7	$ 3.1	$ 10.5	$ 15.0

Our 2009 annual grant of stock options and restricted stock units (RSU) occurred in the second quarter, similar to the 2008 annual grant. The weighted-average grant-date fair value of an option granted in 2009 was $5.04 and in 2008 was $7.20 under a lattice pricing model. The fair values of option grants in the stated periods were computed using the following range of assumptions for our various stock compensation plans:

	2009	**2008**
Risk-free interest rates	0.2 - 2.7%	1.4 - 3.6%
Dividend yield	3.2%	2.3%
Expected volatility	24.9%	18.7 - 24.7%
Expected lives	6.2	6.1

As of August 31, 2009 the intrinsic value (the difference between the exercise price and the market price) for all options outstanding was $64.4 million and the intrinsic value for all options exercisable was $61.1 million. The total intrinsic value of all options exercised was as follows (in millions):

	Three months ended August 31,		Nine months ended August 31,	
	2009	2008	2009	2008
Total intrinsic value for all options exercised	$ 2.7	$ 28.7	$ 7.9	$ 50.9

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The following is a summary of all option activity for the nine months ended August 31:

(shares in millions)	2009 Number of Shares	2009 Weighted-Average Exercise Price	2008 Number of Shares	2008 Weighted-Average Exercise Price
Outstanding at beginning of period	11.9	$ 28.33	14.2	$ 26.38
Granted	1.2	29.89	.6	37.58
Exercised	(0.7)	20.34	(2.7)	20.24
Forfeited	(0.1)	35.24		
Outstanding at end of August	12.3	28.81	12.1	28.29
Exercisable at end of August	10.5	$ 28.27	10.7	$ 27.18

The following is a summary of all of our RSU activity for the nine months ended August 31:

(shares in thousands)	2009 Number of Shares	2009 Weighted-Average Grant-Date Fair Value	2008 Number of Shares	2008 Weighted-Average Grant-Date Fair Value
Outstanding at beginning of period	370	$ 36.78	373	$ 36.47
Granted	223	29.89	279	37.58
Vested	(235)	36.40	(275)	35.81
Forfeited	(2)	33.70	(3)	37.38
Outstanding at end of August	356	$ 32.39	374	$ 37.78

7. RESTRUCTURING ACTIVITIES

In November 2005, the Board of Directors approved a restructuring plan to consolidate our global manufacturing, rationalize our distribution facilities, improve our go-to-market strategy, eliminate administrative redundancies and rationalize our joint venture partnerships. We estimate total pre-tax charges of approximately $125 million for this program. The segment breakdown of the total charges is to be approximately 65% related to the consumer segment and 35% related to the industrial segment. Of these charges, approximately $97 million will consist of severance and other personnel costs and approximately $50 million for other exit costs. Asset write-offs are to be approximately $13 million, exclusive of the $34 million pre-tax gain on the redemption of our Signature Brands, L.L.C. joint venture (Signature) recorded in 2006. The cash related portion of the charges will be approximately $105 million, of which approximately $17 million is expected to be spent in 2009, net of cash received for asset sales. The actions being taken are expected to reduce approximately 1,325 positions by the conclusion of the plan. As of August 31, 2009 the majority of our restructuring program had been completed. We expect the plan will be completed in 2009.

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(Unaudited)

The following is a summary of restructuring activities (in millions):

	Three months ended August 31,		Nine months ended August 31,	
	2009	**2008**	**2009**	**2008**
Pre-tax restructuring charges				
Other restructuring charges	$ .9	$ 2.6	$ 8.2	$ 1.7
Recorded in cost of goods sold		.9		2.5
Reduction in operating income	.9	3.5	8.2	4.2
Income tax effect	(.2)	(1.1)	(2.5)	(1.3)
Reduction in net income	$ .7	$ 2.4	$ 5.7	$ 2.9

During the three months ended August 31, 2009, we recorded $0.2 million of severance costs and $0.3 million of other exit costs related to the consolidation of production facilities in Europe. We also recorded $0.4 million of asset write-downs and accelerated depreciation related to the closure of our manufacturing plant in The Netherlands. Of the 1,325 positions expected to be reduced, 1,270 positions have been eliminated as of August 31, 2009.

From inception of the project in November 2005, we have incurred $120.7 million of restructuring charges, including the $8.4 million gain on disposal of our Salinas manufacturing facility in 2008 and the $33.7 million gain recorded on the redemption of our Signature investment in 2006.

During the nine months ended August 31, 2009, we recorded $3.4 million of severance costs and $1.2 million of other exit costs related to the consolidation of production facilities in Europe and the reorganization of distribution networks in the U.K. We also recorded $3.6 million of asset write-downs and accelerated depreciation related to the closure of our manufacturing plant in The Netherlands.

During the three months ended August 31, 2008, we recorded $1.0 million of severance costs, primarily associated with the reduction of administrative personnel in Europe. In addition, we recorded $1.5 million of other exit costs related to the consolidation of production facilities in Europe and the reorganization of distribution networks in the U.K. The remaining $1.0 million is comprised of asset write-downs in Europe.

During the nine months ended August 31, 2008, we recorded $4.1 million of severance costs, primarily associated with the reduction of administrative personnel in Europe and Canada. In addition, we recorded $6.2 million of other exit costs related to the consolidation of production facilities in Europe and the reorganization of distribution networks in the U.S and U.K. These restructuring charges were offset by a $6.1 million credit related to the disposal of assets. This credit was primarily the result of a gain on the disposal of our Salinas manufacturing facility.

McCORMICK & COMPANY, INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The business segment components of the restructuring charges recorded in 2009 and 2008 are as follows (in millions):

	Three months ended August 31,		Nine months ended August 31,	
	2009	2008	2009	2008
Consumer	$ .7	$ 2.4	$ 7.5	$ 0.2
Industrial	.2	1.1	.7	4.0
Total restructuring charges	$ .9	$ 3.5	$ 8.2	$ 4.2

Consumer: The restructuring charges in 2009 include severance costs, asset write-downs, accelerated depreciation and other exit costs related to the consolidation of production facilities in Europe, including the closure of our manufacturing plant in The Netherlands, and the reorganization of distribution networks in the U.K. The restructuring charges in 2008 include severance costs associated with the reduction of administrative personnel in Europe and Canada, other exit and inventory write-off costs related to the consolidation of production facilities in Europe and the U.S. and the reorganization of distribution networks in the U.S and U.K. These restructuring charges were offset by the $8.4 million gain recorded on disposal of our Salinas manufacturing facility in 2008 (recorded as an asset-related credit).

Industrial: The restructuring charges in 2009 include severance costs and other exit costs related to the consolidation of production facilities and administrative personnel in Europe. The restructuring charges in 2008 include severance and other exit costs related to the reduction of administrative personnel and the consolidation of production facilities in Europe.

During 2009 and 2008, the following cash was spent on our restructuring plan (in millions):

	Three months ended August 31,		Nine months ended August 31,	
	2009	2008	2009	2008
Total cash spent	$ 1.3	$ 4.7	$ 7.2	$ 0.1

The cash spent for the nine months ended August 31, 2008 includes $14.4 million received from the sale of our Salinas manufacturing facility in April, 2008. From inception of the project in November 2005, $91.3 million in cash has been spent on the restructuring plan, including the $14.4 million cash received from the Salinas sale and $9.2 million cash received on redemption of our Signature investment in 2006.

The major components of the restructuring charges and the remaining accrual balance related to the restructuring plan are as follows (in millions):

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

	Severance and personnel costs	Asset related charges/ (credits)	Other exit costs	Total
Third Quarter 2009:				
Balance at May 31, 2009	$ 7.6	$	$ 1.1	$ 8.7
Restructuring charges	.2	.4	.3	.9
Amounts utilized	(1.0)	(.4)	(.2)	(1.6)
Balance at Aug 31, 2009	$ 6.8	$	$ 1.2	$ 8.0
Nine months ended August 31, 2009:				
Balance at Nov 30, 2008	$ 7.8	$	$ 2.7	$ 10.5
Restructuring charges	3.4	3.6	1.2	8.2
Amounts utilized	(4.4)	(3.6)	(2.7)	(10.7)
Balance at Aug 31, 2009	$ 6.8	$	$ 1.2	$ 8.0
Third Quarter 2008:				
Balance at May 31, 2008	$ 5.2	$	$ .3	$ 5.5
Restructuring charges	1.0	1.0	1.5	3.5
Amounts utilized	(3.1)	(1.0)	(1.6)	(5.7)
Balance at Aug 31, 2008	$ 3.1	$	$ .2	$ 3.3
Nine months ended Aug 31, 2008:				
Balance at Nov 30, 2007	$ 7.1	$	$ .4	$ 7.5
Restructuring charges/(credits)	4.1	(6.1)	6.2	4.2
Amounts utilized	(8.1)	6.1	(6.4)	(8.4)
Balance at Aug 31, 2008	$ 3.1	$	$ .2	$ 3.3

8. INCOME TAXES

There were no significant changes to the amount of unrecognized tax benefits during the three and nine months ended August 31, 2009. It is reasonably possible that the amount of the liability for unrecognized tax benefits (which was $28.6 million as of November 30, 2008) could change significantly during the next twelve months as a result of the resolution of previously filed tax returns in various jurisdictions. An estimate of the possible change cannot be determined at this time.

Income taxes for the three months ended August 31, 2009 include $1.6 million of net discrete tax benefits. There are $3.0 million of benefits from adjustments to prior year tax accruals based on

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

final tax return filings. This was partially offset by $1.4 million of a valuation allowance set up for certain deferred tax assets that may not be realized in future periods. Income taxes for the nine months ended August 31, 2009 include $2.8 million of net discrete tax benefits. There are $4.2 million of benefits from settlement of tax audits and adjustments to prior year tax accruals based on final tax return filings. This was partially offset by $1.4 million of a valuation allowance set up for certain deferred tax assets that may not be realized in future periods.

Income taxes for the third quarter of 2008 and nine months ended August 31, 2008 include $1.1 million and $1.8 million, respectively, of discrete tax benefits related to U.S. tax adjustments.

9. FINANCIAL INSTRUMENTS

In the first quarter of 2009, we adopted a new standard that requires disclosure of the fair value of derivative instruments and their gains and losses in tabular format. In addition, this standard requires the disclosure of objectives and strategies for using derivative instruments.

We use derivative financial instruments to enhance our ability to manage risk, including foreign currency and interest rate exposures, which exist as part of our ongoing business operations. We do not enter into contracts for trading purposes, nor are we a party to any leveraged derivative instrument. The use of derivative financial instruments is monitored through regular communication with senior management and the use of written guidelines.

As of August 31, 2009, the maximum time frame for our foreign exchange forward contracts is 15 months. The net amount of other comprehensive income expected to be reclassified into income in the next 12 months is $0.9 million as a decrease to earnings.

All derivatives are recognized at fair value in the balance sheet and recorded in either current assets, noncurrent other assets, other accrued liabilities or other long-term liabilities depending upon nature and maturity.

The following table discloses the fair values of derivative instruments on our balance sheet as of August 31, 2009 (in millions):

	Asset Derivatives			Liability Derivatives		
	Balance Sheet Location	Notional Amount	Fair Value	Balance Sheet Location	Notional Amount	Fair Value
Derivatives Designated as Hedging Instruments						

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(Unaudited)

Interest rate contracts	Other current assets	$ 100.0	$ 13.5		$	$
Foreign exchange forward contracts	Other current assets	106.0	1.4	Other accrued liabilities	25.7	1.1
Total		$ 206.0	$ 14.9		$ 25.7	$ 1.1

The following tables disclose the impact of derivative instruments on our financial operations for the three and nine months ending August 31, 2009 (in millions):

Derivative in Fair Value Hedging Relationships	**Location of Gain or (Loss) Recognized in Income on Derivative and Hedged Items**	**Amount of Income or (Expense) Recognized in Income on Derivative**	
		For the three months ended 8/31/09	**For the nine months ended 8/31/09**
Interest rate contracts	Interest expense	$ 1.0	$ 2.9

Derivative in Cash Flow Hedging Relationships	**Amount of Gain or (Loss) Recognized in OCI on Derivative (effective portion)**		**Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (effective portion)**	**Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (effective portion)**		**Amount of Gain or (Loss) Recognized in Income on Derivative (ineffective portion)**	
	For the three months ended 8/31/09	**For the nine months ended 8/31/09**		**For the three months ended 8/31/09**	**For the nine months ended 8/31/09**	**For the three months ended 8/31/09**	**For the nine months ended 8/31/09**
Terminated interest rate contracts			Interest expense	(0.3)	(1.0)		
Foreign exchange contracts	0.3	(2.2)	Cost of goods sold	1.4	5.0	**	**

Total	0.3	(2.2)	1.1	4.0	**	**

** Amounts round down to zero.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The amounts noted in the tables above for other comprehensive income (OCI) do not include any adjustments for the impact of deferred income taxes.

During the third quarter of 2009, we amended and extended our $250 million revolving credit facility, which expired in July 2009. The credit facility is with various banks for general business purposes and has been extended to July 2010. The amended and extended credit facility is for $150 million, but will be reduced to $100 million on December 31, 2009. Our current pricing under this new credit facility, on a fully drawn basis, is based on LIBOR plus a credit default index. The index s lower limit is 1% and is capped at 2.5%. This credit facility is in addition to our $500 million facility which expires in July 2012.

In December 2007, we issued $250 million of 5.75% notes due 2017. Net interest is payable semiannually in arrears in January and July of each year. A portion of these notes were also subject to an interest rate hedge as further disclosed below. The net proceeds from this offering were used to repay $150 million of debt that matured in the first quarter of 2008 with the remainder used to repay short-term debt.

In August 2007, we entered into $150 million of forward treasury lock agreements to manage the interest rate risk associated with a portion of the forecasted issuance of $250 million of fixed rate notes issued in December 2007. We cash settled these treasury lock agreements for a loss of $10.5 million simultaneous with the issuance of the notes and effectively fixed the interest rate on the $250 million notes at a weighted average fixed rate of 6.25%. The loss on these agreements has been deferred in other comprehensive income and is being amortized over the ten-year life of the notes as a component of interest expense.

10. FAIR VALUE MEASUREMENTS

When certain assets or liabilities are recorded at fair value, they are measured using a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3: Unobservable inputs that reflect the reporting entity s own assumptions.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Our financial assets and liabilities subject to fair value measurements on a recurring basis are as follows (in millions):

	Fair Value as of 8/31/09	Fair Value Measurements at 8/31/09 Using Fair Value Hierarchy		
		Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	$ 27.9	$ 27.9	$	$
Long-term investments	51.0	51.0		
Interest rate derivatives	13.5		13.5	
Foreign currency derivatives	1.4		1.4	
Total	$ 93.8	$ 78.9	$ 14.9	$
Liabilities				
Long-term debt	$ 932.2	$	$ 932.2	$
Foreign currency derivatives	1.1		1.1	
Total	$ 933.3	$	$ 933.3	$

The carrying values reported for cash and cash equivalents, long-term investments, interest rate derivatives and foreign currency derivatives approximate fair value. The carrying value of long-term debt is $885.8 million at August 31, 2009.

The fair values of long-term investments are based on quoted market prices from various stock and bond exchanges. The long-term debt fair values are based on quotes for like instruments with similar credit ratings and terms. The fair values for interest rate and foreign currency derivatives are based on quotations from various banks for similar instruments using models with market based inputs.

We also adopted the portion of the fair value standard for non-financial assets and liabilities in the first quarter of 2009. Other than the finalization of the Lawry s asset valuation as disclosed in Note 2, we had no required fair value measurements for non-financial assets and liabilities in the first nine months of 2009 and no required additional disclosures upon adoption.

11. BUSINESS SEGMENTS

We operate in two business segments: consumer and industrial. The consumer and industrial segments manufacture, market and distribute spices, herbs, seasonings, specialty foods and flavors throughout the world. Our consumer segment sells to retail outlets, including grocery, mass merchandise, warehouse clubs, discount and drug stores under the McCormick® brand and a variety

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

of brands around the world, including Lawry's®, Zatarain's®, Simply Asia®, Thai Kitchen®, Ducros®, Vahine®, Silvo®, Schwartz®, Club House® and Billy Bee®. Our industrial segment sells to multinational food manufacturers and food service customers both directly and indirectly through distributors.

In each of our segments, we produce and sell many individual products which are similar in composition and nature. It is impractical to segregate and identify revenue and profits for each of these individual product lines.

We measure segment performance based on operating income excluding restructuring charges from our restructuring programs as this activity is managed separately from the business segment. Although the segments are managed separately due to their distinct distribution channels and marketing strategies, manufacturing and warehousing are often integrated to maximize cost efficiencies. We do not segregate jointly utilized assets by individual segment for internal reporting, evaluating performance or allocating capital. Because of manufacturing integration for certain products within the segments, products are not sold from one segment to another but rather inventory is transferred at cost. Intersegment sales are not material.

	Consumer	Industrial (in millions)	Total
Three months ended August 31, 2009			
Net sales	$ 450.5	$ 341.2	$ 791.7
Restructuring charges	.7	.2	.9
Operating income excluding restructuring charges	89.0	28.5	117.5
Income from unconsolidated operations	2.4	.7	3.1
Three months ended August 31, 2008			
Net sales	$ 443.0	$ 338.6	$ 781.6
Restructuring charges	2.4	1.1	3.5
Operating income excluding restructuring charges	75.1	21.3	96.4
Income from unconsolidated operations	3.2	2.1	5.3

	Consumer	Industrial (in millions)	Total
Nine months ended August 31, 2009			
Net sales	$ 1,306.2	$ 961.3	$ 2,267.5
Restructuring charges	7.5	.7	8.2
Operating income excluding restructuring charges	234.9	62.3	297.2
Income from unconsolidated operations	6.8	3.3	10.1
Nine months ended August 31, 2008			
Net sales	$ 1,270.9	$ 998.8	$ 2,269.7
Restructuring charges	.2	4.0	4.2
Operating income excluding restructuring charges	197.8	57.2	255.0
Income from unconsolidated operations	10.5	4.5	15.0

The following table is a reconciliation of operating income

McCORMICK & COMPANY, INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

excluding restructuring charges to operating income (in millions):

	Three months ended Aug 31, 2009	Three months ended Aug 31, 2008
Operating income excluding restructuring charges	$ 117.5	$ 96.4
Restructuring charges	.9	3.5
Operating income	$ 116.6	$ 92.9

	Nine months ended Aug 31, 2009	Nine months ended Aug 31, 2008
Operating income excluding restructuring charges	$ 297.2	$ 255.0
Less: Restructuring charges	8.2	4.2
Operating income	$ 289.0	$ 250.8

ITEM 2 MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
OVERVIEW

Our Business

We are a global leader in the manufacture, marketing and distribution of spices, herbs, seasonings, specialty foods and flavors to the entire food industry. Customers range from retail outlets and food manufacturers to food service businesses. Our major sales, distribution and production facilities are located in North America and Europe. Additional facilities are based in Mexico, Central America, Australia, China, Singapore, Thailand and South Africa. Annually, approximately 40% of our sales have been outside of the United States.

We operate in two business segments, consumer and industrial. Profit margins in our consumer business are higher than the profit margins in our industrial business, which is consistent with the experience of other manufacturers operating in the same business segments. On average, approximately 80% of our product costs are from materials and packaging and approximately 20% are from labor and overhead. Across both segments, we have the customer base and product breadth to participate in all types of eating occasions, whether it is cooking at home, dining out, purchasing a quick service meal or enjoying a snack. We offer consumers a range of products from premium to value-priced.

Our Strategy

Our strategy is to improve margins, invest in our business and increase sales and profits.

Improving Margins Beginning in the latter part of 2007, our

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progress with margin improvement was hampered by an environment of volatile costs for many raw and packaging materials. However, we have begun to improve margins in recent quarters due to cost-savings programs, new capabilities and improved processes. We are also improving margins with the acquisition of strong consumer brands such as Lawry s and the introduction of higher-margin, more value-added industrial products.

With the benefit of the Lawry s acquisition and our *Comprehensive Continuous Improvement* (CCI) program, we expect to increase gross profit margin in 2009 at least 50 basis points. Under the CCI program each business unit develops cost reduction opportunities and sets specific goals. Our long-term goal is to continue to increase gross profit margin and to achieve a higher operating income margin.

Investing in the Business We are investing in our consumer business with innovation, marketing and expanded distribution.

As an industry leader, McCormick brings innovative ideas to consumers. We are on the forefront of taste trends and develop an annual Flavor Forecast for the benefit of chefs, food editors, customers and consumers. Many of the new products currently being developed provide convenience, ethnic flavors and bold taste. Beginning in 2009, dry seasoning mixes, which have shown an increase in sales due to value pricing and convenience, now feature more natural ingredients and new packaging. Industrial customers are particularly interested in more natural flavor solutions that utilize our expertise in spices and herbs. We founded the McCormick Science Institute in 2007 to conduct research on the health benefits of spices and herbs.

We are increasing our marketing support to drive growth of our brands. In 2008 our marketing support expenditures were 13% higher than in 2007 and were up 51% from 2003. Our goal in 2009 is to increase marketing support by at least $20 million over 2008 with three quarters of the increase due to the addition of the Lawry s business.

We are expanding distribution through acquisitions. We are adding leading brands to extend our reach into new geographic regions where we currently have little or no distribution. We have a particular interest in emerging markets that offer high growth potential, such as India, China and Eastern Europe. In our developed markets, we are seeking consumer brands that deliver great flavor, meet a growing consumer trend and have a defensible niche position.

In 2008 and 2009, we also gained new distribution with value-priced retailers in the Americas and EMEA. In China, we are expanding distribution of our brand into 10 additional cities.

Increasing Sales and Profits With the investments in our business, we have long-term annual objectives to grow sales 4 to

6% and increase earnings per share 9 to 11%. In the latter part of 2008 and into 2009, the global economy weakened considerably, which has led to a less certain environment. In addition to a more difficult economy, the dollar strengthened relative to 2008, which unfavorably impacted our net sales and profits from international operations. For fiscal year 2009, these factors have impacted our financial results which are projected to be above 2008 but below our long-term annual objectives.

Our business generates strong cash flow. Actions to grow profit and improve our working capital, as well as our cash conversion cycle, are designed to lead to higher levels of cash generation. We have a share repurchase program that has lowered our shares outstanding. Since early in 2008, the program has been curtailed while we pay down debt from the Lawry s acquisition. We are also building shareholder return with consistent dividend payments. We have paid dividends every year since 1925 and increased the dividend in each of the past 23 years.

RESULTS OF OPERATIONS COMPANY

(in millions)	Three months ended August 31, 2009	Three months ended August 31, 2008	Nine months ended August 31, 2009	Nine months ended August 31, 2008
Net sales	$ 791.7	$ 781.6	$ 2,267.5	$ 2,269.7
Percent increase (decrease)	1.3%		(.1)%	
Gross profit	$ 319.0	$ 308.4	$ 905.5	$ 892.1
Gross profit margin	40.3%	39.5%	39.9%	39.3%

The sales increase of 1.3% for the third quarter includes a 5.0% unfavorable impact from foreign currency exchange rates. With a stronger dollar in the third quarter of 2009 when compared to 2008, exchange rates have had a negative effect on sales.

Excluding the foreign currency impact, we grew sales 6.3%. Approximately one half of the increase came from pricing actions and the other half from the combination of volume and product mix. The volume and product mix increase includes incremental sales from the Lawry s acquisition, which added 3.5% to the quarter. This was largely offset by lower sales volumes and product mix in EMEA (Europe, Middle East and Africa region) for the quarter. The impact of Lawry s includes the reduction in sales from the disposition of Season-All.

For the nine months ended August 31, 2009, the sales decrease of 0.1% versus the same period last year includes 7.1% from the unfavorable impact of foreign currency. The 7.0% increase excluding the foreign currency impact was due to pricing actions, along with favorable product mix and higher volumes, including a 4.7% increase from acquisitions.

Gross profit margin increased 0.8% and 0.6% for the third quarter

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and first nine months of the year, respectively. We have seen continued increases in our gross profit margin, driven by our move toward a more favorable business mix, including the addition of Lawry s. Our margin improvement is also being driven by our CCI program, our restructuring actions and discretionary cost controls throughout our operations. Our increases thus far this year are ahead of the goal we set early in 2009 to increase gross profit margin at least 50 basis points.

	Three months ended August 31,		Nine months ended August 31,	
(in millions)	**2009**	**2008**	**2009**	**2008**
Selling, general & administrative expense (SG&A)	$ 201.5	$ 212.9	$ 608.3	$ 639.6
Percent of net sales	25.5%	27.2%	26.8%	28.2%

The reduction in our SG&A as a percentage of net sales in the third quarter includes progress with our CCI program and cost controls. This reduction in SG&A was net of a $2.4 million increase in marketing support. The underlying decrease in SG&A reflects our efforts to manage expenses, improve productivity and integrate the Lawry s business with minimal incremental operating expenses. Other factors favorably affecting SG&A this quarter were lower distribution costs and favorable benefit expenses. For the nine months ended August 31, 2009, our marketing support has increased by $13.1 million or 15% over the prior year and we have recorded $7.3 million of expenses related to the bankruptcy of a U.K. food service distributor. However, SG&A in total dollars and as a percentage of net sales decreased due to our CCI program and cost controls, as well as reductions in distribution costs and benefit expenses. As a percentage of net sales, the decrease in SG&A for the nine months ended August 31, 2009 is also due to the integration of the Lawry s business with minimal incremental operating expenses.

The following is a summary of restructuring activities (in millions):

	Three months ended August 31,		Nine months ended August 31,	
	2009	**2008**	**2009**	**2008**
Pre-tax restructuring charges				
Other restructuring charges	$ .9	$ 2.6	$ 8.2	$ 1.7
Recorded in cost of goods sold		.9		2.5
Reduction in operating income	.9	3.5	8.2	4.2
Income tax effect	(.2)	(1.1)	(2.5)	(1.3)
Reduction in net income	$ .7	$ 2.4	$ 5.7	$ 2.9
Reduction in earnings per share diluted	$	$ 0.02	$ 0.04	$ 0.02

The restructuring charges in 2009 include severance costs, asset write-downs, accelerated depreciation and other exit costs related to the consolidation of production facilities in Europe, including

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the closure of our manufacturing plant in The Netherlands, and the reorganization of distribution networks in the U.K. The restructuring charges in 2008 include severance costs associated with the reduction of administrative personnel in Europe and Canada, other exit and inventory write-off costs related to the consolidation of production facilities in Europe and the reorganization of distribution networks in the U.S and U.K. These restructuring charges were partially offset by a $6.1 million credit related to the disposal of assets. This credit was primarily the result of a gain on the disposal of our Salinas manufacturing facility.

	Three months ended August 31,		Nine months ended August 31,	
(in millions)	**2009**	**2008**	**2009**	**2008**
Interest expense	$ 12.8	$ 12.8	$ 40.2	$ 40.3
Other income, net	.3	10.0	1.8	16.4

Interest expense in the third quarter of 2009 was equal to interest expense in the third quarter of 2008. Total average debt outstanding was higher in 2009 when compared to 2008, which is due to the acquisitions made in 2008. This was offset by lower interest rates. In other income for 2008, there is a $7.9 million net gain related to the Lawry s acquisition. This includes a gain on the sale our Season-All business net of costs to rebalance our debt structure. In addition, interest income has been lower in the three and nine months ended August 31, 2009 versus the same periods in the prior year due to lower interest rates.

	Three months ended August 31,		Nine months ended August 31,	
(in millions)	**2009**	**2008**	**2009**	**2008**
Income from consolidated operations before income taxes	$ 104.1	$ 90.1	$ 250.6	$ 226.9
Income taxes	32.1	26.8	77.2	68.5
Effective tax rate	30.8%	29.7%	30.8%	30.2%

The effective tax rate for the third quarter of 2009 includes $1.6 million of net discrete tax benefits. There are $3.0 million of benefits from adjustments to prior year tax accruals based on final tax return filings. This was partially offset by $1.4 million of a valuation allowance set up for certain deferred tax assets that may not be realized in future periods. The effective tax rate for the nine months ended August 31, 2009 includes $2.8 million of net discrete tax benefits. There are $4.2 million of benefits from settlement of tax audits and adjustments to prior year tax accruals based on final tax return filings. This was partially offset by $1.4 million of a valuation allowance set up for certain deferred tax assets that may not be realized in future periods. The effective tax rate for the third quarter of 2008 and nine months ended August 31, 2008 includes $1.1 million and $1.8 million, respectively, of discrete tax benefits related to U.S.

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tax adjustments.

Excluding the discrete tax items, the underlying tax rate for the nine months in 2009 was 32%, compared to a 31% rate for the nine months in 2008. The underlying tax rate increase is due to our current mix of income by taxing jurisdictions.

	Three months ended August 31,		Nine months ended August 31,	
(in millions)	**2009**	**2008**	**2009**	**2008**
Income from unconsolidated operations	$ 3.1	$ 5.3	$ 10.1	$ 15.0

Income from unconsolidated operations for the three and nine months ended August 31, 2009 decreased compared to the same periods in 2008. This is mainly from our joint venture in Mexico, as well as some smaller joint ventures. Although our joint venture in Mexico has grown sales this year, profits for this business have been unfavorably impacted mostly by the stronger U.S. dollar and also by higher soybean oil cost during the first nine months of 2009. Soybean oil is a main ingredient for mayonnaise, which is the leading product for this joint venture. Both soybean oil costs and the exchange rates between the U.S. dollar and Mexican peso have continued to stabilize in the third quarter of 2009.

The following table outlines the major components of the change in diluted earnings per share from 2008 to 2009:

	Three months ended August 31,	Nine months ended August 31,
2008 Earnings per share diluted	$ 0.52	$ 1.32
Restructuring charges	0.02	(0.02)
Higher operating income	0.11	0.22
Lower unconsolidated income	(0.02)	(0.04)
Lower other income	(0.05)	(0.08)
Higher tax rate	(0.01)	(0.01)
2009 Earnings per share diluted	$ 0.57	$ 1.39

RESULTS OF OPERATIONS SEGMENTS

We measure segment performance based on operating income excluding restructuring charges from our restructuring program as this program is managed separately from our business segments.

CONSUMER BUSINESS

	Three months ended August 31,		Nine months ended August 31,	
(in millions)	**2009**	**2008**	**2009**	**2008**
Net sales	$ 450.5	$443.0	$ 1,306.2	$ 1,270.9

Percent growth	1.7%		2.8%	
Operating income excluding restructuring charges	89.0	75.1	234.9	197.8
Operating income margin, excluding restructuring charges	19.8%	17.0%	18.0%	15.6%

The 1.7% increase in sales in the third quarter of 2009 as compared to the third quarter of 2008 included an unfavorable impact of 3.8% from foreign currency rates. Excluding the foreign currency impact, we grew sales 5.5%. We realized a 2.5% increase in sales due to pricing. Volume and product mix added another 3.0% to sales, including a 5.4% increase from acquisitions.

In the Americas, sales increased 7.8% in the third quarter of 2009, compared to the third quarter of 2008, including a 1.0% decrease due to unfavorable foreign exchange rates. Excluding the foreign exchange impact, we grew sales 8.8%. Volume and product mix added 5.9%, while pricing contributed 2.9% to sales growth. Pricing this quarter reflected a general increase taken early in 2009 which was partially offset by an increase in our coupon activity in the third quarter.

Incremental sales from Lawry s in June and July added 7.9% to sales this quarter. For our core items, category growth remained strong and consumer takeaway of our branded items as well as private label are increasing. We had strong growth in sales of GrillMates this quarter as a result of our marketing efforts in the U.S. and Canada. Sales of our dry seasoning mixes continued to benefit from a relaunch earlier in 2009 that included reformulation with more natural ingredients. Some of the items that did not perform as well this quarter were our premium gourmet items and specialty food items. In addition, we had the benefit last year of some new distribution into the dollar store channel.

Third quarter 2009 sales in EMEA decreased 12.6% compared to the third quarter of 2008. Excluding the impact of unfavorable foreign exchange rates, sales decreased 2.6%. Pricing actions taken in the fourth quarter of 2008 added 1.3% to third quarter sales while volume and product mix declined 3.9%.

The retail environment in the U.K. continues to be challenging and affected our third quarter sales in this market. Our business in France is still strong, particularly with our Vahine dessert items which will be supported with incremental brand marketing in the fourth quarter.

In the Asia/Pacific region, sales decreased 3.9% in the third quarter of 2009, compared to the third quarter of 2008, with an 8.5% decrease coming from unfavorable foreign exchange rates. Excluding the foreign currency impact, we grew sales 4.6% with pricing adding 2.3% and an increase of 2.3% coming from higher volume and product mix. As noted in the second quarter, in China

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we have launched several new products and expanded distribution of our brand into 10 additional cities in 2009, bringing the total to 56 cities. This is in addition to distribution gains underway in 1,500 additional street markets this year.

For the nine months ended August 31, 2009, sales from McCormick s consumer business increased 2.8% compared to the same period last year. Higher volume (including acquisitions), price and product mix added 8.7%, while unfavorable foreign exchange rates decreased sales by 5.9%.

Third quarter 2009 operating income excluding restructuring charges for our consumer business increased $13.9 million, or 18.5%. This was well above the 1.7% increase in sales due to improved margins from cost reductions, the integration of Lawry s with minimal incremental expense and reductions in benefits expense. These improvements have raised our operating income margin to 19.8%.

In the third quarter of 2009, we recorded $0.7 million of restructuring charges in the consumer business, compared to $2.4 million for the same period of 2008. The restructuring charges in the third quarter of 2009 include severance costs, asset write-downs, accelerated depreciation and other exit costs related to the consolidation of production facilities in Europe, including the closure of our manufacturing plant in The Netherlands. The restructuring charges in the third quarter of 2008 include severance costs associated with the reduction of administrative personnel in Europe, other exit and inventory write-off costs related to the consolidation of production facilities in Europe and the reorganization of distribution networks in the U.K.

For the nine months ended August 31, 2009, operating income excluding restructuring charges for the consumer business increased 18.8% compared to the same period of 2008. The growth in operating income was mostly the result of improved sales mix, cost reductions and the integration of Lawry s with minimal incremental expense.

During the nine months ended August 31, 2009, we recorded $7.5 million of restructuring charges in the consumer business, compared to $0.2 million in restructuring credits for the same period of 2008. The restructuring charges in 2009 include severance costs, asset write-downs, accelerated depreciation and other exit costs related to the consolidation of production facilities in Europe, including the closure of our manufacturing plant in The Netherlands, and the reorganization of distribution networks in the U.K. The restructuring charges in 2008 include severance costs associated with the reduction of administrative personnel in Europe and Canada, other exit and inventory write-off costs related to the consolidation of production facilities in Europe and the reorganization of distribution networks in the U.S and U.K. These restructuring charges were offset by a credit related to the disposal of assets. This credit was the result of

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an $8.4 million gain recorded on disposal of our Salinas manufacturing facility.

INDUSTRIAL BUSINESS

(in millions)	Three months ended August 31, 2009	2008	Nine months ended August 31, 2009	2008
Net sales	$ 341.2	$ 338.6	$ 961.3	$ 998.8
Percent increase (decrease)	.8%		(3.8)%	
Operating income excluding restructuring charges	28.5	21.3	62.3	57.2
Operating income margin, excluding restructuring charges	8.4%	6.3%	6.5%	5.7%

The third quarter sales increase of 0.8% versus the third quarter of 2008 includes an unfavorable foreign exchange rate impact of 6.4%. Excluding this impact of foreign currency, we grew sales 7.2%. Higher pricing added 4.4% to sales, while volume and product mix increased sales by 2.8%. This 2.8% increase includes incremental sales from acquisitions (food service sales of the Lawry s brand) which added 1.0%.

In the Americas, sales grew 4.2%, but increased 7.3% excluding the impact from unfavorable foreign exchange rates. Compared to last year, we are still experiencing some higher material costs and continue to recover those costs with our pass-through pricing mechanisms for this business, which added 3.2% in the third quarter. Volume and product mix added another 4.1% with 1.4% from Lawry s and 2.7% from our base business, which included sales of several new seasoning products for quick service restaurants.

In EMEA, industrial sales declined 10.0%, but rose 7.6% excluding the impact from unfavorable foreign exchange rates. This increase was the result of significant pricing actions taken to reflect higher input costs for this part of our business. Sales volume to quick service restaurants rose this quarter, but was more than offset by lower sales of our branded products to food service operators that have seen more of a slow-down in this economy. This led to a 3.2% decline in volume and product mix.

In the Asia/Pacific region, industrial sales increased 0.8% in the third quarter of 2009 compared to the third quarter of 2008, which included an unfavorable foreign exchange rate impact of 5.3%. Excluding this impact of foreign currency, sales increased 6.1%. The increase was driven by favorable volume and product mix primarily due to strong sales to quick service restaurants in China, Australia and other markets in this region.

For the nine months ended August 31, 2009, total industrial sales decreased 3.8% compared to the same period last year, including a decrease of 8.6% from unfavorable foreign exchange rates. Excluding the foreign currency impact, we grew sales 4.8% which was primarily due to pricing.

In the third quarter of 2009, industrial business operating income excluding restructuring charges increased 33.8%, compared to the third quarter of 2008. This increase was well above the 0.8% increase in sales due to a positive sales mix and cost reductions through our CCI program and restructuring actions and reductions in benefits expense.

In the third quarter of 2009, $0.2 million of restructuring charges were recorded in the industrial business, compared to $1.1 million in the third quarter of 2008. The charges in the third quarter of 2009 include severance costs related to the consolidation of production facilities in Europe. The restructuring charges in 2008 include severance and other exit costs related to the reduction of administrative personnel and the consolidation of production facilities in Europe.

For the nine months ended August 31, 2009, operating income excluding restructuring charges for the industrial business increased 8.9% compared to the same period of 2008. The increase was mainly driven by improved margins from our CCI program and cost controls, including the integration of Lawry s with minimal incremental expense, partially offset by expenses related to the bankruptcy of a U.K. food service distributor.

During the nine months ended August 31, 2009, $0.7 million of restructuring charges were recorded in the industrial business, compared to $4.0 million for the same period of 2008. The charges in 2009 include severance costs and other exit costs related to the consolidation of production facilities and administrative personnel in Europe. The charges in 2008 include severance costs associated with the reduction of administrative personnel in the U.S., other exit costs related to closure of a manufacturing facility in Hunt Valley, Maryland and consolidation of production facilities in Europe.

ACQUISITIONS

Acquisitions of brands are part of our growth strategy to increase sales and profits and improve margins.

In July 2008, we completed the purchase of the assets of the Lawry s business from Conopco, Inc., an indirect subsidiary of Unilever N.V. Lawry s manufactures and sells a variety of marinades and seasoning blends under the well-known Lawry s brand in North America. The acquisition included the rights to the brands as well as related inventory and a small number of dedicated production lines. It did not include any manufacturing facilities or employees. The distribution of Lawry s sales is approximately 90% to our consumer segment and 10% to our industrial segment.

The purchase price was $604 million in cash, the assumption of certain liabilities relating to the purchased assets and transaction costs of $11.5 million. We used cash on hand and borrowings under our commercial paper program to initially fund the purchase price. In September 2008 we issued $250 million in medium term debt ($248 million in net proceeds) to repay a portion of our outstanding commercial paper issued to fund the Lawry s acquisition. The transaction has undergone a regulatory review and the Federal Trade Commission issued its final order. In compliance with that order, we sold our Season-All business to Morton International, Inc in July 2008. With annual sales of approximately $18 million, the Season-All business was sold for $15 million in cash (with net cash proceeds of $14 million). This resulted in a pre-tax gain of $12.9 million which was recorded as part of Other income in our income statement during the third quarter of 2008.

During the quarter ending August 31, 2009, we completed the final valuation of assets for Lawry s which resulted in $9.4 million being allocated to tangible net assets, $62.4 million allocated to other intangibles assets and $543.2 million allocated to goodwill. This final valuation reflects a $135.5 million transfer from brands and other intangible assets to goodwill from the preliminary valuation recorded in July 2008. The resulting change to amortization expense was not material. The value for brands and other intangible assets consists of $14.4 million which is amortizable and $48.0 million which is non-amortizable. The applicable amortization expense is included in the income statement. The weighted average amortization period for the amortizable intangible assets is 23.8 years. For tax purposes, goodwill resulting from the acquisition is deductible.

In these financial statements we have not included pro-forma historical information, as if the results of Lawry s had been included from the beginning of the periods presented, since the use of forward-looking information would be necessary in order to meaningfully present the effects of the acquisition. Forward looking information, rather than historical information, would be required as Lawry s was operated as a part of a larger business within Unilever and the expense structure and level of brand support would have been different under our ownership. Net sales for the three and nine months ended August 31, 2009 from this acquisition were $27.1 million and $98.7 million, respectively. Net sales for the three and nine months ended August 31, 2008 from this acquisition were $12.4 million.

In February, 2008, we purchased Billy Bee Honey Products Ltd. (Billy Bee) for $76.4 million in cash, a business which operates in North America and is primarily included in our consumer segment from the date of acquisition. Billy Bee markets and sells under the Billy Bee brand. The annual sales of this business were approximately $35.0 million at the time of acquisition and

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include branded, private label and industrial products.

During the quarter ending February 28, 2009, we completed the final valuation of assets for Billy Bee which resulted in $5.7 million being allocated to tangible net assets, $12.0 million allocated to other intangibles assets and $58.7 million allocated to goodwill. This valuation was not significantly different than the preliminary valuation recorded in February 2008. The value for brands and other intangible assets consists of $4.1 million which is amortizable and $7.9 million which is non-amortizable. The applicable amortization expense is included in the income statement.

RESTRUCTURING ACTIVITIES

In November 2005, the Board of Directors approved a restructuring plan to consolidate our global manufacturing, rationalize our distribution facilities, improve our go-to-market strategy, eliminate administrative redundancies and rationalize our joint venture partnerships. As of August 31, 2009 the majority of our restructuring program had been completed, although certain parts are still underway and will be completed later in 2009.

The restructuring plan has reduced complexity and increased the organizational focus on growth opportunities in both the consumer and industrial businesses. We are projecting up to $58 million of annual cost savings by the end of 2009. By the end of 2010, one year after completing all restructuring projects, we are projecting annual cost savings of $66 million. In 2006, we realized $10 million of annual cost savings, and an additional $35 million in 2007 and an additional $11 million in 2008. This has improved margins and increased earnings per share, offset higher costs, as well as allowed us to invest a portion of these savings in sales growth drivers such as brand advertising. These savings are reflected in both cost of sales and selling, general and administrative expenses in the income statement.

Total pre-tax charges under this restructuring plan are estimated to be $125 million with approximately 65% related to the consumer segment and 35% related to the industrial segment. Of these charges, approximately $97 million will consist of severance and other personnel costs and approximately $50 million of other exit costs. Asset write-offs are to be approximately $13 million, exclusive of the $34 million pre-tax gain on the redemption of our Signature Brands, L.L.C. joint venture (Signature) recorded in 2006.

Restructuring charges to date include $10.7 million recorded in 2005, $50.4 million recorded during 2006 (including the gain on Signature), $34.8 million recorded in 2007 and $16.6 million recorded in 2008. In the three months and nine months ended August 31, 2009, we recorded $0.9 million and $8.2 million, respectively, of restructuring charges. For the total plan, the cash related portion of the charges is expected to be approximately $105 million. After offsetting the $14.4 million net cash received from the Salinas sale in April, 2008 and $9.2 million in net cash received from the redemption of Signature, total cash spent to date was $91.3 million. We intend to fund this spending through internally generated funds. A significant portion of the cash expenditures are related to employee severance. The actions being taken are expected to reduce approximately 1,325 positions by the conclusion of the plan. Of the expected position reductions, 1,270 positions have been eliminated as of August 31, 2009. From inception of the project in November 2005, we have incurred $120.7 million of restructuring charges, including the $8.4 million gain on disposal of our Salinas manufacturing facility in 2008 and the $33.7 million gain recorded on the redemption of our Signature investment in 2006.

During the three months ended August 31, 2009, we recorded $0.2 million of severance costs and $0.3 million of other exit costs related to the consolidation of production facilities in Europe. We also recorded $0.4 million of asset write-downs and accelerated depreciation related to the closure of our manufacturing plant in The Netherlands.

During the nine months ended August 31, 2009, we recorded $3.4 million of severance costs and $1.2 million of other exit costs related to the consolidation of production facilities in Europe and the reorganization of distribution networks in the U.K. We also recorded $3.6 million of asset write-downs and accelerated depreciation related to the closure of our manufacturing plant in The Netherlands.

During the three months ended August 31, 2008, we recorded $1.0 million of severance costs, primarily associated with the reduction of administrative personnel in Europe. In addition, we recorded $1.5 million of other exit costs related to the consolidation of production facilities in Europe and the reorganization of distribution networks in the U.K. The remaining $1.0 million is comprised of asset write-downs in Europe.

During the nine months ended August 31, 2008, we recorded $4.1 million of severance costs, primarily associated with the reduction of administrative personnel in Europe and Canada. In addition, we recorded $6.2 million of other exit costs related to the consolidation of production facilities in Europe and the reorganization of distribution networks in the U.S and U.K. These restructuring charges were offset by a $6.1 million credit related to the disposal of assets. This credit was primarily the result of a gain on the disposal of our Salinas manufacturing facility.

During the nine months ended August 31, 2009 and 2008, we spent $7.2 million and $0.1 million, respectively, in cash on the restructuring plan. The cash spending in 2008 includes $14.4 million received from the sale of our Salinas manufacturing facility in April, 2008.

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MARKET RISK SENSITIVITY

Foreign Exchange Risk

We utilize foreign currency exchange contracts to enhance our ability to manage foreign currency exchange risk. The fair value of our portfolio of forward contracts was an unrealized gain of $0.3 million as of August 31, 2009, compared to an unrealized gain of $1.9 million as of August 31, 2008 and an unrealized gain of $7.1 million as of November 30, 2008. The notional value of our portfolio of forward and option contracts was $131.7 million as of August 31, 2009, compared to the $53.1 million notional value as of August 31, 2008 and the $64.9 million notional value as of November 30, 2008. The quarterly fluctuation in notional value is a result of our decisions on foreign currency exposure coverage, based on our foreign currency exposures.

Interest Rate Risk

We manage our interest rate exposure by entering into both fixed and variable rate debt arrangements. In addition, we use interest rate swaps to minimize worldwide financing costs and to achieve a desired mix of fixed and variable rate debt. As of August 31, 2009, we had a total of $100 million, notional value, of interest rate swap contracts outstanding. This compares to $150 million notional value of interest rate swap contracts outstanding as of November 30, 2008. One swap contract with a notional value of $50 million expired in April of 2009 concurrent with the maturity of $50 million of long-term debt. The fair value of our interest rate swaps was a $13.5 million gain as of August 31, 2009, compared to a $15.6 million gain as of November 30, 2008. The change in fair values is due to changes in interest rates and the reduction in notional value of interest rate swap contracts.

Commodity Risk

We purchase certain raw materials which are subject to price volatility caused by weather, market conditions, growing and harvesting conditions, governmental actions and other factors beyond our control. Our most significant raw materials are dairy products, pepper, soybean oil, wheat, capsicums (red peppers and paprika), onion and garlic. While future movements of raw material costs are uncertain, we respond to this volatility in a number of ways, including strategic raw material purchases, purchases of raw material for future delivery and customer price adjustments. We have not used derivatives to manage the volatility related to commodity risk.

Credit Risk

The customers of our consumer business are predominantly food retailers and food wholesalers. Consolidations in these industries have created larger customers, some of which are highly leveraged. In addition, competition has increased with the growth in alternative channels including mass merchandisers, dollar stores, warehouse clubs and discount chains. This has caused some customers to be less profitable and increased our exposure to credit risk. Current credit markets are volatile and some of our customers and counterparties are highly leveraged. We continue to closely monitor the credit worthiness of our customers and counterparties. We feel that our allowance for doubtful accounts properly recognizes trade receivables at net realizable value. We consider nonperformance credit risk for other financial instruments to be insignificant.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

As of August 31, 2009, there have been no material changes in our contractual obligations and commercial commitments outside the ordinary course of business since November 30, 2008.

LIQUIDITY AND FINANCIAL CONDITION

	Nine months ended August 31,	
	2009	2008
	(in millions)	
Net cash provided by operating activities	$ 195.1	$ 115.3
Net cash used in investing activities	(53.3)	(724.7)
Net cash (used in) provided by financing activities	(159.7)	581.9

In the statement of cash flows, the changes in operating assets and liabilities are presented excluding the translation effects of changes in foreign currency exchange rates, as these do not reflect actual cash flows. Accordingly, the amounts in the statement of cash flows do not agree with changes in the operating assets and liabilities that are presented in the balance sheet.

Due to the cyclical nature of the business, we generate much of our cash flow in the fourth quarter of the fiscal year.

Operating Cash Flow - The increase in operating cash flow is driven by more effective management of working capital items, such as inventory and receivables, in the first nine months of 2009 as compared to the first nine months of 2008. Payments for income taxes were less in the first nine months of 2009 as compared to those made in the prior year. These increases were partially offset by $35 million in contributions made to our major U.S. pension plan during the nine months ended August 31, 2009. We did not make any contributions to our major U.S. pension plan in 2008 as we were in an overfunded status as of November 30, 2007.

Investing Cash Flow - The decrease in cash flow used for investing is due to the fact that we had no business acquisitions in the first nine months of 2009. In the first nine months of 2008, we spent $696.8 million for the acquisitions of Lawry s and Billy Bee. We spent $53.8 million on capital expenditures in the first nine months of 2009, compared to $56.7 million for the same period last year. We also received $14.8 million in proceeds from the sale of our Salinas plant and $14.0 million in net proceeds from the sale of Season-All in 2008. Capital expenditures for fiscal year 2009 are expected to be approximately $90 million.

Financing Cash Flow - The decrease in cash flow provided by financing activities when compared to the prior year is primarily due to a change in the need for net borrowings (short and long-term). During the first nine months of 2009 we repaid net borrowings of $79.4 million, as opposed to the first nine months of 2008 when we increased net borrowings by $629.1 million. In 2009, we repaid $50.2 million of long term debt as it became due. In 2008, we borrowed $250 million ($248.3 million in net proceeds) to repay $150 million of debt that matured during the first quarter and repaid short-term debt with the remainder (see Note 9 of the financial statements).

There were no shares repurchased during the nine months ended August 31, 2009. For the nine months ended August 31, 2008, we repurchased 0.2 million shares for $9.3 million. As of August 31, 2009, $39 million remained of the $400 million share repurchase authorization. The amount of share repurchases in 2009 are less than in prior years as we are using excess cash flow to reduce the debt related to the Lawry s acquisition.

During the nine months ended August 31, 2009, we received proceeds of $13.7 million from exercised options compared to $47.6 million in the same period in the prior year. We increased dividends paid to $94.0 million for the nine months ended August 31, 2009 compared to $85.5 million in the same period last year. Dividends paid in the first quarter of 2009 were declared on November 25, 2008.

Our ratio of debt-to-total capital (total capital includes debt and shareholders equity) was 46.5% as of August 31, 2009, down from 52.7% at August 31, 2008 and down from 54.0% at November 30, 2008. The decrease in debt-to-total capital at August 31, 2009 as compared to August 31, 2008 is primarily due to the decrease in short-term and long-term borrowings as we are using excess cash flow to reduce the debt related to the Lawry s acquisition. The decrease in debt-to-total capital at August 31, 2009 as compared to November 30, 2008 is primarily due to an increase in total stockholders equity, which is mostly from higher foreign currency translation adjustments caused by a weakening of the U.S. dollar and the decrease in short-term and long-term borrowings. During a quarter, our short-term borrowings vary, but are lower at the end of a quarter. The average short-term borrowings outstanding for the nine months ended August 31, 2009 and August 31, 2008 was $525.3 million and $313.6 million, respectively. Total average debt outstanding for the nine months ended August 31, 2009 and August 31, 2008 was $1,417.1 million and $1,016.7 million, respectively.

The reported values of our assets and liabilities are significantly affected by fluctuations in foreign exchange rates between periods. At August 31, 2009, the exchange rates for the Euro, the British pound sterling, the Canadian dollar and Australian dollar were lower than the same period last year. Exchange rate fluctuations resulted in a decrease in accounts receivable of approximately $12 million, inventory of approximately $9 million, goodwill of approximately $23 million and other comprehensive income of approximately $63 million since August 31, 2008. At August 31, 2009, the exchange rates for the Euro, the British pound sterling, the Canadian dollar and Australian dollar were higher than at November 30, 2008. Exchange rate fluctuations resulted in increases in accounts receivable of approximately $27 million, inventory of approximately $18 million, goodwill of approximately $76 million and other comprehensive income of approximately $139 million since November 30, 2008.

Credit and Capital Markets

Credit market conditions deteriorated rapidly during the fourth quarter of 2008 and continued into the first quarter of 2009. Several major banks and financial institutions have failed or were forced to seek assistance through distressed sales or emergency government measures. During this time capital markets have seen sharp drops in values and both credit availability and cost were very volatile.

Cash flows from operating activities are our primary source of liquidity for funding growth, dividends, and capital expenditures. In the past we have also used this cash to make share repurchases, however we are currently using operating cash flow to pay down debt incurred in the Lawry s acquisition before we consider resumption of our share repurchase program. We also rely on our revolving credit facilities, or borrowings backed by these facilities, to fund seasonal working capital needs and other general corporate requirements. We generally use these facilities to support our issuance of commercial paper. If the commercial paper market is not available or viable, we could borrow directly under our revolving credit facilities. The facilities are made available by syndicates of banks, with various commitments per bank. If any of the banks in these syndicates are unable to perform on their commitments, our liquidity could be impacted, which would reduce our ability to grow through funding of seasonal working capital.

We engage in regular communication with all of the banks participating in our revolving credit facilities. During these communications none of the banks have indicated that they may be

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unable to perform on their commitments. In addition, we periodically review our banking and financing relationships, considering the stability of the institutions, pricing we receive on services, and other aspects of the relationships. Based on these communications and our monitoring activities, we believe the likelihood of one of our banks not performing on its commitment is remote.

During the third quarter of 2009, we amended and extended our $250 million revolving credit facility, which expired in July 2009. The credit facility is with various banks for general business purposes and has been extended to July 2010. The amended and extended credit facility is for $150 million, but will be reduced to $100 million on December 31, 2009. Our current pricing under this new credit facility, on a fully drawn basis, is based on LIBOR plus a credit default index. The index s lower limit is 1% and is capped at 2.5%. This credit facility is in addition to our $500 million facility which expires in July 2012.

We hold investments in equity and debt securities in both our qualified defined benefit pension plans and through a rabbi trust for our nonqualified defined benefit pension plan. The assets in our pension plans have been significantly reduced by fluctuations in the capital markets in 2008, which has increased the amount of funding necessary for our pension plans. We estimate that total contributions to our pension plans in 2009 to be approximately $59 million, which compares to $15.6 million of contributions in 2008. For the nine months ended, we have made $53.8 million to our U.S. and international pension plans. We estimate that total contributions to our pension plans in the fourth quarter of 2009 will be approximately $5 million. Future increases or decreases in pension liabilities and required cash contributions are highly dependent on changes in interest rates and the actual return on plan assets.

We believe that internally generated funds and the existing sources of liquidity under our credit facilities are sufficient to meet current liquidity needs and fund ongoing operations.

ACCOUNTING AND DISCLOSURE CHANGES

In May 2009, the Financial Accounting Standards Board (FASB) issued guidance regarding subsequent events (events or transactions occurring after the balance sheet date but before issuance of our financial statements). This new accounting pronouncement is effective for our third quarter of 2009 and we have evaluated subsequent events through October 8, 2009, the date these financial statements were issued.

In December 2008, the FASB issued guidance on providing disclosures about plan assets of an employer s defined benefit pension plan. This will be effective for our year ending November 30, 2010.

In March 2008, the FASB issued a standard intended to improve financial reporting by requiring disclosures about the location and amounts of derivative instruments in an entity s financial statements; how derivative instruments and related hedged items are accounted for under current standards; and how derivative instruments and related hedged items affect its financial position, financial performance and cash flows. We began making these new disclosures in the first quarter of 2009 (see Note 9 for further details).

In December 2007, the FASB issued a standard that outlines the accounting and reporting for ownership interest in a subsidiary held by parties other than the parent company (sometimes referred to as minority interests). This new accounting pronouncement is effective for our first quarter of 2010 and we do not expect any material impact on our financial statements from adoption.

In December 2007, the FASB issued a standard on business combinations. This standard establishes principles and requirements for how an acquirer recognizes and measures the identifiable assets acquired, the liabilities assumed, any minority interest in the acquiree and the goodwill acquired. This standard also establishes disclosure requirements which will enable users to evaluate the nature and financial effects of the business combination. It is effective for us for acquisitions made after November 30, 2009 and its implementation may have a material impact on our financial statements for businesses we acquire post-adoption.

In September 2006, the FASB issued a standard that requires us to (a) record an asset or a liability on our balance sheet for our pension plans overfunded or underfunded status (b) record any changes in the funded status of our pension and postretirement plans in the year in which the changes occur (reported in comprehensive income) and (c) measure our pension and postretirement assets and liabilities at November 30 versus our current measurement date of September 30. We complied with the requirement to record the funded status and provided additional disclosures with our financial statements for our year ended November 30, 2007. Effective with our first quarter of 2009 financial statements, we complied with the portion of the standard to eliminate the difference between our plans measurement date and our November 30 fiscal year-end. The standard provides two approaches to transition to a fiscal year-end measurement date, both of which are to be applied prospectively. We elected to apply the transition option under which a 14-month measurement period (from September 30, 2008 through November 30, 2009) was used to determine our 2009 fiscal year pension expense. Because of the 14-month measurement period, we recorded a $2.3 million ($1.5 million, net of tax) decrease to retained earnings with a corresponding increase to other long-term liabilities effective December 1, 2008.

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In September 2006, the FASB issued a standard that defines fair value and provides guidance for measuring fair value and the necessary disclosures. This standard does not require any new fair value measurements but rather applies to all other accounting pronouncements that require or permit fair value measurements. In line with the requirements, we adopted this standard for financial assets and liabilities in the first quarter of 2008 and we adopted it for non-financial assets and liabilities in the first quarter of 2009 (see Note 10 for further details). Additional pronouncements have been issued by the FASB providing guidance and clarification on measuring fair value. There were no material effects upon adoption of this new accounting pronouncement on our financial statements and we do not expect any material impact on our financial statements from the additional pronouncements when they become effective.

FORWARD-LOOKING INFORMATION

Certain statements contained in this report are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, including those related to: the expected results of operations of businesses acquired by us, the expected impact of the prices of raw materials on our results of operations and gross margins, the expected margin improvements, expected trends in net sales and earnings performance and other financial measures, annualized savings and other benefits from our restructuring activities, the expectations of pension funding, the holding period and market risks associated with financial instruments, the impact of foreign exchange fluctuations, the adequacy of internally generated funds and existing sources of liquidity, such as the availability of bank financing and our ability to issue additional debt or equity securities, and our expectations regarding purchasing shares of our Common Stock under the existing authorizations. Forward-looking statements are based on management s current views and assumptions and involve risks and uncertainties that could significantly affect expected results. Results may be materially affected by external factors such as: damage to our reputation or brand name, business interruptions due to natural disasters or similar unexpected events, actions of competitors, customer relationships and financial condition, the ability to achieve expected cost savings and margin improvements, the successful acquisition and integration of new businesses, fluctuations in the cost and availability of raw and packaging materials, and global economic conditions generally which would include the availability of financing, interest and inflation rates as well as foreign currency fluctuations, and other risks described in the our Form 10-K for the fiscal year ended November 30, 2008. Actual results could differ materially from those projected in the forward-looking statements. We undertake no obligation to update or revise publicly, any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

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ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For information regarding our exposure to certain market risks, see Market Risk Sensitivity in the Management s Discussion and Analysis of Financial Condition and Results of Operations above and Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in our Annual Report on Form 10-K for the year ended November 30, 2008. Except as described in Management s Discussion and Analysis of Financial Condition and Results of Operations above, there have been no significant changes in our financial instrument portfolio or market risk exposures since our November 30, 2008 fiscal year end.

ITEM 4 CONTROLS AND PROCEDURES

The Company s management, with the participation of the Company s Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company s disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as of the end of the period covered by this report. Based on that evaluation, the Company s Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, the Company s disclosure controls and procedures were effective.

No change occurred in our internal control over financial reporting (as defined in Rule 13a-15(f)) during our last fiscal quarter which was identified in connection with the evaluation required by Rule 13a-15(a) as materially affecting, or reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There are no material pending legal proceedings in which the Registrant or any of its subsidiaries is a party or in which any of their property is the subject.

ITEM 1A. RISK FACTORS

There have been no material changes in our risk factors from those disclosed in Part I, Item 1A to our Annual Report on Form 10-K for the fiscal year ended November 30, 2008, except as disclosed below. The risk factors disclosed in Part I, Item 1A to our Annual Report on Form 10-K for the fiscal year ended November 30, 2008, in addition to the other information set forth in this report, are certain risk factors that could affect our business, financial condition, and results of operations. These risk factors should be considered in connection with evaluating the forward-looking statements contained in our Annual Report on Form 10-K and set forth in this report because these factors could cause the actual results and conditions to differ materially from those projected in forward-looking statements. Before you buy our Common Stock or Non-Voting Common Stock, you should know that making such an investment involves some risks, including the risks described below. The risks that have been highlighted here are not the only ones that we face. If any of the risks actually occur, our business, financial condition, or results of operations could be negatively affected. In that case, the trading price of our securities could decline, and you may lose all or part of your investment.

The Deterioration of Credit and Capital Markets May Adversely Affect our Access to Sources of Funding.

We rely on our revolving credit facilities, or borrowings backed by these facilities, to fund a portion of our seasonal working capital needs and other general corporate purposes. If any of the banks in the syndicates backing these facilities were unable to perform on its commitments, our liquidity could be impacted, which could adversely affect funding of seasonal working capital requirements. The Company engages in regular communication with all of the banks participating in our revolving credit facilities. During these communications none of the banks have indicated that they may be unable to perform on their commitments. In addition, management periodically reviews our banking and financing relationships, considering the stability of the institutions, pricing we receive on services, and other aspects of the relationships. Based on these communications and our monitoring activities, management believes the likelihood of one of our banks not performing on its commitment is remote.

In addition, global capital markets have experienced volatility that has tightened access to capital markets and other sources of

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funding. In the event we need to access the capital markets or other sources of financing, there can be no assurance that we will be able to obtain financing on acceptable terms or within an acceptable time, if at all. Our inability to obtain financing on terms and within a time acceptable to us could have an adverse impact on our operations, financial condition, and liquidity.

ITEM 6. EXHIBITS

The Asset Purchase Agreement has been filed to provide investors and security holders with information regarding its terms. It is not intended to provide any other factual information about the Company or Conopco. The Asset Purchase Agreement contains representations and warranties the parties thereto made to and solely for the benefit of each other, and such representations and warranties may be subject to standards of materiality applicable to the contracting parties that differ from those applicable to investors. The assertions embodied in those representations and warranties are qualified by information in confidential disclosure schedules that the Company delivered in connection with the execution of the Asset Purchase Agreement. Accordingly, investors and security holders should not rely on the representations and warranties as characterizations of the actual state of facts. Moreover, information concerning the subject matter of the representations and warranties may change after the date of the Asset Purchase Agreement, which subsequent information may or may not be fully reflected in the Company s disclosures.

The following exhibits are attached or incorporated herein by reference:

	Exhibit Number	**Description**
(3) (i)	Articles of Incorporation and By-Laws	
	Restatement of Charter of McCormick & Company, Incorporated dated April 16, 1990	Incorporated by reference from Exhibit 4 of Registration Form S-8, Registration No. 33-39582 as filed with the Securities and Exchange Commission on March 25, 1991.
	Articles of Amendment to Charter of McCormick & Company, Incorporated dated April 1, 1992	Incorporated by reference from Exhibit 4 of Registration Form S-8, Registration Statement No. 33-59842 as filed with the Securities and Exchange Commission on March 19, 1993.
	Articles of Amendment to Charter of	Incorporated by reference from Exhibit 4 of Registration Form

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		McCormick & Company, Incorporated dated March 27, 2003	S-8, Registration Statement No. 333-104084 as filed with the Securities and Exchange Commission on March 28, 2003.
	(ii)	Bylaws	
		By-Laws of McCormick & Company, Incorporated Restated and Amended on June 24, 2008	Incorporated by reference from Exhibit 3(i) of McCormick s Form 8-K dated June 24, 2008, as filed with the Securities and Exchange Commission on June 26, 2008.

(4) Instruments defining the rights of security holders, including indentures

(i) See Exhibit 3 (Restatement of Charter and By-Laws)

(ii) Summary of Certain Exchange Rights, incorporated by reference from Exhibit 4.1 of McCormick s Form 10-Q for the quarter ended August 31, 2001 as filed with the Securities and Exchange Commission on October 12, 2001.

(iii) Indenture dated December 5, 2000 between McCormick and SunTrust Bank, incorporated by reference from Exhibit 4(iii) of McCormick s Form 10-Q for the quarter ended August 31, 2003, as filed with the Securities and Exchange Commission on October 14, 2003. McCormick hereby undertakes to furnish to the Securities and Exchange Commission, upon its request, copies of additional instruments of McCormick with respect to long-term debt that involve an amount of securities that do not exceed 10 percent of the total assets of McCormick and its subsidiaries on a consolidated basis, pursuant to Regulation S-K, Item 601(b)(4)(iii)(A).

(iv) Indenture dated December 7, 2007 between McCormick and The Bank of New York, incorporated by reference from Exhibit 4.1 of McCormick s Form 8-K dated December 4, 2007, as filed with the Securities and Exchange Commission on December 10, 2007. McCormick hereby undertakes to furnish to the Securities and Exchange Commission, upon its request, copies of additional instruments of McCormick with respect to long-term debt that involve an amount of securities that do not exceed 10 percent of the total assets of McCormick and its subsidiaries on a consolidated basis, pursuant to Regulation S-K, Item 601(b)(4)(iii)(A).

(v) Form of 5.20% Notes due 2015, incorporated by reference from Exhibit 4.2 of McCormick s Form 8-K dated December 1, 2005, as filed with the Securities and Exchange Commission on December 6, 2005.

(vi) Form of 5.80% Notes due 2011, incorporated by reference from Exhibit 4.2 of McCormick s Form 8-K dated July 10, 2006, as filed with the Securities and Exchange Commission on July 13, 2006.

(vii) Form of 5.75% Notes due 2017, incorporated by reference from Exhibit 4.2 of McCormick s Form 8-K dated December 4, 2007, as filed with the Securities and Exchange Commission on December 10, 2007.

(viii) Form of 5.25% Notes due 2013 (issued pursuant to an Indenture between McCormick and The Bank of New York Mellon, formerly known as The Bank of New York, as trustee, a copy of which was filed with the Securities and Exchange Commission as Exhibit 4.1 to McCormick s Form 8-K on December 10, 2007), incorporated by reference from Exhibit 4.1 of McCormick s Form 8-K dated September 3, 2008, as filed with the Securities and Exchange Commission on September 4, 2008.

(10) Material contracts

(i) McCormick s supplemental pension plan for certain senior officers, as amended and restated effective June 19, 2001, is contained in the McCormick Supplemental Executive Retirement Plan, a copy of which was attached as Exhibit 10.1 to McCormick s Form 10-Q for the quarter ended August 31, 2001, as filed with the Securities and Exchange Commission on October 12, 2001, and incorporated by reference herein. The Amended and Restated Supplemental Executive Retirement Plan, effective January 1, 2005, which agreement is incorporated by reference from Exhibit 10(i) of McCormick s 10-K for the fiscal year ended November 30, 2008, as filed with the Securities and Exchange Commission on January 28, 2009.*

(ii) The 2001 Stock Option Plan, in which officers and certain other management employees participate, is set forth on pages 33 through 36 of McCormick s definitive Proxy Statement dated February 15, 2001, as filed with the Securities and Exchange Commission on February 14, 2001, and incorporated by reference herein.*

(iii) The 1997 Stock Option Plan, in which officers and certain other management employees participate, is set forth in Exhibit B of McCormick s definitive Proxy Statement dated February 19, 1997, as filed with the Securities and Exchange Commission on February 18, 1997, and incorporated by reference herein.*

(iv) The 2002 McCormick Mid-Term Incentive Plan, which is provided to a limited number of senior executives, is set forth on pages 23 through 31 of McCormick s definitive Proxy Statement dated February 15, 2002, as filed with the Commission on February 15, 2002, and incorporated by reference herein.*

(v) 2004 Long-Term Incentive Plan, in which officers and certain other management employees participate, is set forth in Exhibit A of McCormick s definitive Proxy Statement dated February 17, 2004, as filed with the Securities and Exchange Commission on February 17, 2004, and incorporated by reference herein.*

(vi) 2004 Directors Non-Qualified Stock Option Plan, provided to members of McCormick s Board of Directors who are not also employees of McCormick, is set forth in Exhibit B of McCormick s definitive Proxy Statement dated February 17, 2004 as filed with the Securities and Exchange Commission on February 17, 2004, and incorporated by reference herein.*

(vii) Directors Share Ownership Program, provided to members of McCormick s Board of Directors who are not also employees of McCormick, is set forth on page 28 of McCormick s definitive Proxy Statement dated February 17, 2004 as filed with the Securities and Exchange Commission on February 17, 2004, and incorporated by reference herein.*

(viii) Deferred Compensation Plan, as restated on January 1, 2000, and amended on August 29, 2000, September 5, 2000 and May 16, 2003, in which directors, officers and certain other management employees participate, a copy of which Plan document and amendments was attached as Exhibit 10(viii) of McCormick s Form 10-Q for the quarter ended August 31, 2003 as filed with the Securities and Exchange Commission on October 14, 2003, and incorporated by reference herein.*

(ix) 2005 Deferred Compensation Plan, amended and restated with an effective date of January 1, 2005, in which directors, officers and certain other management employees participate, which agreement is incorporated by reference from Exhibit 4.1 of McCormick s Form S-8 filed with the Securities and Exchange Commission on November 28, 2008.*

(x) The 2009 Employee Stock Purchase Plan, in which employees participate, is set forth in Exhibit A of McCormick s definitive Proxy Statement dated February 12, 2009, as filed with the Securities and Exchange Commission on February 12, 2009, and incorporated by reference herein.*

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(xi) The 2007 Omnibus Incentive Plan, in which directors, officers and certain other management employees participate, is set forth in Exhibit A of McCormick s definitive Proxy Statement dated February 20, 2008, as filed with the Securities and Exchange Commission on February 20, 2008, and incorporated by reference herein, as amended by Amendment No. 1 thereto, which Amendment is incorporated by reference from Exhibit 10(xi) of McCormick s 10-K for the fiscal year ended November 30, 2008, as filed with the Securities and Exchange Commission on January 28, 2009.*

(xii) Asset Purchase Agreement, dated November 13, 2007, between McCormick and Conopco, Inc., which agreement is incorporated by reference from Exhibit 2.1 of McCormick s Form 8-K dated November 13, 2007, as filed with the Securities and Exchange Commission on November 16, 2007.

(xiii) Consulting Agreement, dated January 1, 2007, among McCormick, CKB Consulting LLC and Robert J. Lawless, which agreement is incorporated by reference from Exhibit 10(xiii) of McCormick s Form 10-K for the fiscal year ended November 30, 2007, as filed with the Securities and Exchange Commission on January 28, 2008, as amended on January 8, 2009, which is incorporated by reference from Exhibit 10(xiii) of McCormick s 10-K for the fiscal year ended November 30, 2008, as filed with the Securities and Exchange Commission on January 28, 2009.*

(31)	Rule 13a-14(a)/15d-14(a) Certifications	Attached.
(32)	Section 1350 Certifications	Attached.

* Management contract or compensatory plan or arrangement.

SIGNATURES

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

McCORMICK & COMPANY, INCORPORATED

Date: October 8, 2009	By:	/s/ GORDON M. STETZ, JR. **Gordon M. Stetz, Jr.** **Executive Vice President & Chief Financial Officer**
Date: October 8, 2009	By:	/s/ KENNETH A. KELLY, JR. **Kenneth A. Kelly, Jr.** **Senior Vice President & Controller**

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